

**THE EMERGING ROLE OF HUMAN RESOURCE  
MANAGEMENT IN INDUSTRIAL ENTERPRISES IN CHINA:  
PAST, CURRENT AND FUTURE HR PRACTICES**

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Doctor of Philosophy

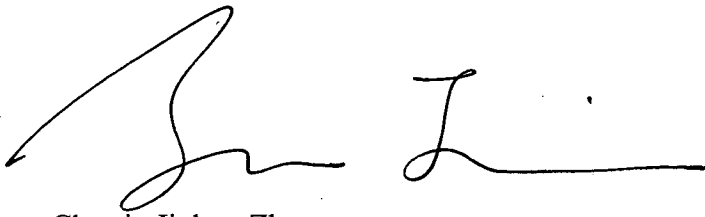
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August 2000

Dedicated to the fond memory of my father,  
Professor Zhu, Baoyong

## Declaration

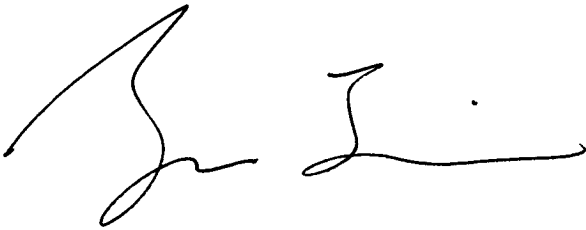
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## **Abstract**

In the late 1970s, the Chinese government announced an open-door policy and began economic reforms aimed at moving the country from a centrally planned economy to a market economy. This ongoing transition has resulted in significant changes in management practices in China's industrial sector and has profound implications for its human resource (HR) practices.

Based on a review of the current literature, this thesis examines the rise of a highly centralised command economy and dominance of public ownership during Mao's regime and changes that occurred in both the economic system and ownership structure since economic reform. It also discusses the impact of different economic systems and ownership forms on management and HR practices in China's industrial enterprises. There is a dearth of research that systematically examines current HR practices in Chinese industrial enterprises, especially across enterprises with different types of ownership. Given this, the thesis identifies three research questions: 1) How were human resources in Chinese industrial enterprise managed before and after the commencement of economic reform with respect to major HR activities, including: human resource planning; recruitment and selection; performance appraisal; compensation and welfare; training and development; and labour relations? 2) What impact does form of ownership have on HR practices in Chinese industrial enterprises? 3) What are the possible future development paths of human resource management (HRM) in Chinese industrial enterprises?

The three research questions were investigated and addressed through four major case studies conducted in four enterprises with different ownership forms in China and survey questionnaires with 440 respondents. Each case study and survey result was discussed and analysed separately. This was followed by a comparative analysis between the qualitative (case studies) and quantitative (survey) studies.

The thesis thus achieved its primary purpose, namely, to explore the emerging role of HRM in China's industrial enterprises with different types of ownership. It enhances the understanding of HRM in the Chinese industrial sector by offering empirical evidence of past and current practices across the major HR activities, and pointing to future HR trends within the sector. It also contributes to the theory of HRM by exploring HR practices across enterprises with four types of ownership to investigate the impact of ownership form on HRM. In addition, the study proposes a model of HRM that indicates possible future development paths for HRM in Chinese industrial enterprises and discusses future HRM challenges, emphasising the significance of training the workforce in China for such challenges. Research limitations and recommendations for future research are identified and presented.

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**GLOSSARY OF TERMS**

<b>ACFTU</b>	All-China Federation of Trade Unions
<b>ANOVA</b>	analysis-of-variance
<b>CMRS</b>	contract management responsibility system
<b>COE</b>	collective-owned enterprise
<b>CPC</b>	Communist Party of China
<b>DRSULP</b>	director responsibility system under the leadership of the Party
<b>FDRS</b>	factory director responsibility system
<b>FID</b>	foreign direct investment
<b>FIE</b>	foreign-invested enterprise
<b>HOD</b>	head of department
<b>HR</b>	human resource
<b>HRM</b>	human resource management
<b>JV</b>	joint venture
<b>IJV</b>	international joint venture
<b>MANOVA</b>	multivariate analysis-of-variance
<b>MBA</b>	Master of Business Administration
<b>MBO</b>	management by objective
<b>MRC</b>	Municipal Radio Conglomerate (in Nanjing, China)
<b>ODCC</b>	Organisation Department of the Central Committee ( <i>zhongyang zuzhi bu</i> )
<b>PLA</b>	People's Liberation Army
<b>POE</b>	private-owned enterprise
<b>PRC</b>	People's Republic of China
<b>R &amp; D</b>	research and development
<b>SOE</b>	state-owned enterprise
<b>WTO</b>	World Trade Organisation

## **CHAPTER 1**

### **OVERVIEW OF THE THESIS**

#### **1.1 Chapter Objectives**

The objective of this thesis is to explore the emerging role of human resource management (HRM) in Chinese industrial enterprises. The thesis examines human resource (HR) practices prior to and during the economic reform and their future development trend, and analyses the impact of ownership form on HRM. The objective is achieved by conducting systematic research through both review of current literature and field investigation, including case studies and survey. This introductory chapter of the thesis has two objectives. The first is to provide background for the thesis, including the rationale and significance of the study, and its research objectives. The second objective is to outline the structure of this thesis and clarify the organisation of its eleven chapters.

#### **1.2 Rationale for the Study**

The Third Plenary of the 11<sup>th</sup> Central Committee of the Communist Party of China (CPC), held in December 1978, was regarded as a historical turning point that became a milestone in the history of the People's Republic of China (PRC). It initiated a major program of reform of the Chinese economy. The meeting “started all the processes which put an end to the excesses of the ‘extreme left’ policies over two decades and which finally led to the emergence and consolidation of the policies of reform and opening”

(Talas, 1991: 67). Two major components of the command economy - central planning and public ownership - were targeted for reforms (Dong, 1992; Talas, 1991). According to Dong Furen, a noted Chinese economist, reform in planning, also called operational reform, has sought to substitute the mandatory central planning system with a market-oriented system. Meanwhile reform in ownership structure aims to change the predominantly public ownership of Mao's regime and to reform state ownership itself to establish a new form of public ownership that stimulates economic growth (Dong, 1992).

The economic reforms of the past two decades have led to a socialist market economy with Chinese characteristics. The operational reform has resulted in shrinkage of the old centralised planning system and an increasing role for the market in the economic system on issues ranging from control over prices to resource allocation. The ownership reform has resulted in a rapid growth of enterprises in the non-state sector with more intensive competition. In particular, the enterprise reform that is focused on state-owned enterprises (SOEs) has been at the centre of reforms since the early 1990s with the introduction of a modern enterprise system incorporating restructuring, corporatisation, shareholding and marketisation (e.g., Chai & Docwra, 1997; Demberger, 1997; Lo, 1997). As a result, ownership is being gradually separated from the administration of enterprises, particularly in SOEs that have been or are being converted into financially self-sufficient businesses rather than being administered and subsidised by the state.

The series of reforms have led to rapid economic growth in China. Since opening its doors in the late 1970s, China's economy has sustained a growth rate in excess of 9% (EIU, 1997). By 1997 GDP growth was slower than the blistering pace of the immediately preceding years because of the Asian financial crisis, but was still nearly

9% in 1997 and exceeded 7% in 1999 (Lardy, 1998: 78; *Beijing Review*, January 10, 2000: 4). Furthermore, China's open-door policy has accelerated its integration into the global economy. Between 1985 and 1997, China's exports grew at an average annual rate of 27.7% (in current prices) while its foreign direct investment (FDI, actually utilised) was growing at an average annual rate of more than 30% (Demberger, 1999: 612).

The past two decades of reforms and impressive economic growth has witnessed an unprecedented enthusiasm for establishing foreign invested enterprises (FIEs) in China, including foreign joint ventures and wholly foreign-owned ventures. Many foreign companies have expanded their operations into China, attracted mainly by the sheer size of its potential market. By the end of 1997, accumulative real use of FDI in China had reached US\$220.18 billion (Shen, 1999: 189). Employment in FIEs had increased from 550,000 employees in 1986 to nearly 20 million by the end of 1996 (*China Labour Statistical Yearbook*, 1995; Chen, 1999: 35). China has become the second largest recipient of FDI in the world since 1993, after the United States, according to *World Investment Report 1997*, released by United Nations Conference on Trade and Development (UNCTAD, 1997: 307). It is also ranked as one of the largest outward investors among developing economies in the 1990s with a cumulative stock of outward FDI that had reached over US\$18 billion by the end of 1996 (see Cai, 1999). China is now considered to be the third biggest economy in the world after the United States and Japan. Its greater economic integration with the rest of the world, especially after becoming a member of the WTO, will further accelerate its market-oriented economic reforms, as it needs to open its protected markets and submit to the rule of international law (Chartier, 1998; Ispahani et al., 1999).

The economic reforms, and increasing participation in the world economy, have thus set the stage for significant changes in the management of industrial enterprises in China, especially in the area of HR practices. For example, the responsibility for labour allocation is being shifted from a centralised planning authority to forecasting and planning departments within enterprises; production and reward systems are changing, with less emphasis on egalitarianism and a stronger link to efficiency and performance. While China is in the transition "from plan to market" (see Liew, 1997) and the reforms have substantially upgraded China's old-style 'command economy' to a new 'socialist market economy' (Goodall & Warner, 1997), a number of questions arise. First, to what extent have traditional management systems and practices, especially HR activities, been changed? Second, what is the impact of both operational and ownership reforms on the management of the workforce in Chinese industrial enterprises? In particular, what is the impact of different ownership types on HRM? Finally, how will HR practices develop as a result of the economic reforms and what issues are emerging for the future? To date many researchers have addressed only part rather than all of these questions, such as changes in management practices in general (e.g., Child, 1994; Laaksonen, 1988; Tung, 1982), and changes in some HR practices (Jackson, 1992; Warner, 1995; Zhao, 1995). Many of these studies are qualitative rather than quantitative in nature. There remains a dearth of research that systematically examines past and current HR practices through both quantitative and qualitative approaches across industrial enterprises with different types of ownership. In order to contribute to this under-researched area, this study employs both qualitative and quantitative methodologies to explore the questions raised in this thesis (see Section 1.4).



### **1.3 Significance of the Study**

Given the size of its growing economy and its vast population, China has become increasingly significant in international business decisions (Punnett & Shenkar, 1994) and "has become a focus of interest for Western organisation and management researchers" (Shenkar & Von Glinow, 1994: 56). This is because the changes that have occurred in China hold profound consequences for different groups including managers, management researchers and policy makers at both government and company levels.

#### **1.3.1 Significance for managers**

The escalation of FDI in China has resulted in greater involvement of foreign companies in technology transfer and the injection of managerial expertise into China's economic development. Of all the FDI vehicles in China, foreign-invested enterprises (FIEs), in particular joint ventures, have become the most widespread form of foreign investment (Zhao & Zhu, 1998). Many state-owned enterprises (SOEs) have been selected as local partners (Child, 1993; Perkins, 1996). To a certain extent, foreign ownership is instrumental in protecting FIEs from the various pressures of localisation (Lu & Bjorkman, 1997). However, many FIEs in China have experienced substantial problems preventing them from reaching the expectations of parent companies (Child & Lu, 1996; Fung, 1995; Nyaw, 1993). These problems often stem from differences in political, economic and social systems, national culture, and conflict with traditional Chinese management practices retained as a legacy of the pre-reform days (Beamish, 1993; Hoon-Halbauer, 1996; Warner, 1995).

Researchers have pointed out that the Chinese workforce has "consistently displayed work attitudes and behaviour radically different from those common in the West" (Shenkar, 1994: 13). Fung (1995) has also noted that because of their conceptual and behavioural differences, co-operation between Western managers and Chinese local employees could be seriously hampered. Meanwhile, other researchers (e.g., Ding, Fields, & Akhtar, 1997; Goodall & Warner, 1997; Paik, Vance & Stage, 1996) have argued that Chinese HRM policies and practices are quite different from those used in both developed and developing market economies. Careful consideration of local idiosyncratic practices is thus required to operate successfully in China. Furthermore, current HR practices in China still have a distinctive 'Chinese' flavour, as they have been grafted onto the old system (Warner, 1995). Therefore, the study of Chinese enterprise management "promises not only to provide information of direct relevance to those who are active in that economy, but also to illuminate the relevance of Western thinking on management" (Child, 1994: 2).

The results of this study will allow better appreciation of the effect of transition to a market economy on management and HR practices. An understanding of China's past and present management, particularly HR practices, will be of value to both foreign managers and their local Chinese counterparts. For foreign managers who are currently operating or contemplating commencing operations in China, the results of this research may assist their understanding of the changes that have occurred and the difficulties faced by local managers in accepting non-traditional or Western-style management practices. In the case of local Chinese managers, whether they are working in FIEs or other types of enterprises, this research may help them understand the emerging role of HRM in

enterprise management and recognise the inefficiencies in current HR practices for future improvement.

### **1.3.2 Significance for management researchers**

Many researchers (e.g., Shenkar, 1994; Child & Lu, 1996) have claimed that China represents a most attractive site for research on management, especially in the area of comparative and international management. Shenkar and Von Glinow (1994) present three compelling reasons for this. The first reason is that China has the largest workforce in the world, thus current management theories and methodologies cannot claim to be universal unless "they can explain the structure and processes of PRC enterprises, as well as the attitudes and behaviour of those who work in them". The second reason is that China, because of its numerous differences compared with Western countries, "potentially represents the most serious challenge to paradigms developed in the West". Finally, China's integration into the world, albeit slow, has made the relevance of Western models "a practical matter as much as a theoretical issue" (see Shenkar & Von Glinow, 1994: 56-57).

While in transition from a highly centralised command economy to a more market-driven economy, China retains its socialist one-party government system as well as its socialist ideology (e.g., Burns, 1999; Pye, 1999; Starr, 1997). Therefore, China can be used as a test case for socialist and post-socialist economic reform. Its enterprises can be studied to assess the universality of the macro and micro theories of management and organisation that have been developed largely in the West or derived from Western experience (Child, 1994; Shenkar & Von Glinow, 1994). In this study, the function of HRM and major HR activities as defined in the West by Schuler, Dowling, Smart and Huber (1992) are

applied to examine how Chinese employees have been managed both prior to, and during, the economic reforms. In addition, a survey questionnaire built upon the work of Western researchers (see Teagarden et al., 1995; Von Glinow, 1993) is adopted to study a range of HR practices in China's industrial enterprises. Therefore, this study will facilitate management researchers' understanding of the application of Western-developed management and HR practices in the Chinese context and its related problems.

In addition to examining the emerging role of HRM in Chinese industrial enterprises, this study, based on both qualitative and quantitative data, explores the impact of ownership forms on HR practices in different types of industrial enterprises. The findings of this study will address the dearth of research on the relationship between ownership types and HR practices in China. Finally, this study constructs a model of HRM for Chinese industrial enterprises under transition. In this respect, the results of this study should add significantly to an understanding of Chinese HRM and its transformation for management researchers.

### **1.3.3 Significance for policy makers**

This study reveals that the impact of economic reforms and subsequent changes in traditional systems and practices on the management of human resources are profound. It therefore offers some important insights for policy makers in both companies and governments. For example, it is significant for foreign companies that transfer their home country HR policies and practices to their subsidiaries in China. The research findings of this study support the argument that foreign companies should not assume that identical HR practices can be applied to their Chinese enterprises (e.g., Child, 1993; Fung, 1995; Huo & Von Glinow, 1995; Paik, Vance & Stage, 1996). This study

examines the degree to which Western-style HR practices are being employed in Chinese enterprises and their perceived effectiveness, thereby providing a framework for the extent of transfer of foreign company policies to their Chinese subsidiaries.

This study also highlights issues for government policy makers in terms of their regulation of enterprises. These issues include further reform of the joint stock ownership structure of enterprises, managerial appointments for senior enterprise managers, consistency and transparency of regulations for private-owned enterprises to improve their business environment, and the interdependence of HRM development with other reforms. An awareness of these issues could help government policy makers re-evaluate their current policies to facilitate development of HR practices in industrial enterprises.

#### **1.4 Research Objectives**

This study has three research objectives to address the issues raised in the rationale. The first is to enhance the understanding of HRM in China's industrial sector by offering both qualitative and quantitative evidence of past and current practices across the major HR activities, and by indicating developmental trends in HR practices. The second is to contribute to the research literature on HRM in China by exploring HR practices across Chinese industrial enterprises with four types of ownership and to investigate the impact of ownership type on HRM. Finally, this study will construct a transitional HRM model for Chinese industrial enterprises to illustrate possible paths of development of Chinese HRM. To this end, three related research questions have been identified for investigation:

- Q 1. *How were human resources in Chinese industrial enterprises managed before and after the commencement of economic reform with respect to major HR activities, including: human resource planning; recruitment and selection; performance appraisal; compensation and welfare; training and development; and labour relations?*
- Q 2. *What impact does ownership type have on HR practices in Chinese industrial enterprises?*
- Q 3. *What are the possible future development paths of HRM in Chinese industrial enterprises?*

## **1.5 Structure of the Thesis**

This thesis comprises eleven chapters. Chapter 1 provides an overview of the thesis, including the rationale and significance of this study. As the reform of the traditional command economy is regarded as a historical turning point in the history of the PRC, with profound impact on management and HR practices in the industrial sector, it is necessary to understand the command economy and how it affected enterprise management during Mao's regime. This issue is addressed in Chapter 2, which reviews and examines the formation and development of the two major components of the command economic system - a centralised planning system and a socialist ownership structure - during Mao's regime and their impact on management practices in the industrial sector.

Chapter 3 examines briefly the transition of the economic system since the reform in the late 1970s and changes in ownership structure and government regulation of HR

practices. It also analyses the impact of the reforms on management practices in general in industrial enterprises. In Chapter 4, attention is focused upon management of human resources before and during the economic reform. This chapter compares the pre-reform personnel and labour administration with current HRM in terms of the categorisation of human resources and a range of HR practices. On the basis of an extant literature review conducted in Chapters 2, 3 and 4, a traditional PRC model of personnel and labour administration is presented and research questions are developed for further investigation.

The research methodology of this thesis is detailed in Chapter 5. It includes the rationale for adopting both qualitative and quantitative approaches in the research, design and conduct of four major case studies and a questionnaire survey in 1994 and 1995 in China to examine HR practices prior to and since the economic reform. The results of four case studies are presented respectively in Chapters 6, 7, 8, and 9. Each of these chapters is focused on a case enterprise with a different type of ownership, ranging from state-owned to collective-owned, private-owned and foreign-invested enterprise. These four major case studies have similar objectives, that is, to examine past and current HRM in the enterprise with respect to six major HR practices (i.e., human resource planning; recruitment and selection; performance appraisal; compensation and welfare; training and development; and labour relations); to explore the impact of ownership type on HR practices; and to analyse probable paths of HRM development in the future.

While Chapters 6-9 provide qualitative results, Chapter 10 presents quantitative data obtained from the survey conducted in 1994 and 1995. The survey questionnaire is

based on the work of Von Glinow and colleagues on best international HRM practices (Teagarden et al., 1995; Von Glinow, 1993). It investigates the status quo of the HR department and the existence of HR activities in the industrial enterprises, examines the extent to which HR activities are currently conducted and are expected in the future, explores the impact of ownership type on HR activities, and analyses future probable paths of HRM development.

In Chapter 11, the research findings obtained from both the qualitative case studies and quantitative surveys are analysed and discussed in relation to the research questions posed in this thesis. The comparative analysis across the four cases and survey enables an integration of research findings obtained from different research methods. Implications of the research findings are drawn with regard to government regulation of enterprises, contribution to the literature on Chinese HRM, and HRM practices in China. The final chapter also recognises the limitations of this study, and offers conclusions and recommendations for future research on HRM in the Chinese industrial sector.



## **CHAPTER 2**

### **THE COMMAND ECONOMY AND MANAGEMENT PRACTICES DURING MAO'S REGIME (1949-78)**

#### **2.1 Chapter Objectives**

The objectives of this chapter are mainly two. The first objective is to review and examine how a centralised planning system and a socialist ownership structure were formed and developed in the pre-reform period (1949-78) in China. This account highlights the rise of a highly centralised command economy and dominance of public ownership during Mao's regime, and indicates the crisis arising from this system as well as pressure for later reforms. The second objective is to discuss the impact of the command economy and ownership structure on management practices in general in the industrial sector before economic reform (HR practices during this period are discussed in Chapter 4). The discussion outlines frequent changes to management practices due to political factors and economic conditions, such as a series of political movements and consequent changes toward centralisation or decentralisation by the central government. Despite the changes that had occurred, management during Mao's regime was still characterised by lack of autonomy and dominance of the government.

#### **2.2 The Economic System and Industry Ownership Structure**

After the PRC was founded in 1949, a Maoist Chinese model was developed and maintained until the commencement of economic reforms in the late 1970s (Jackson, 1992; Harding, 1987; Selden, 1993). The three major components of this model, as

summarised by Dernberger (1982), included a Stalinist ‘big push’ development strategy; a centralised or command economic system; and the radical principles of Maoist ideology. The Stalinist big push development strategy, or “a leap forward type of heavy-industry-oriented development strategy” as specified by Lin, Cai and Li (1996: 19), was adopted by the government in the early 1950s to achieve the goal of rapid industrialisation. However, the heavy-industry centred strategy was not in harmony with China’s initial economic endowment, as China’s scarce capital and poorly developed economy could not support the extremely capital intensive heavy industries (Lin et al., 1996; Naughton, 1996). To reduce the conflicts between the capital-intensive heavy industry and the capital-scarce economy, a command economic system was subsequently established.

The command economy in China was characterised by two prominent features: central planning and public ownership (Lee, 1987; Chen, D.R. 1995). Central planning before the reforms, as noted by Riskin (1987: 9), refers to a particular form of central intervention. The central government set priorities and carried them out administratively by distributing materials and finances to enterprises and ordering output from them, especially state-owned enterprises. Public ownership, including state ownership of the means of production (mainly in the form of state enterprises) and collective ownership, reflects the control of state institutions over enterprises (Pu, 1990; Hay, Morris, Liu & Yao, 1994). This control includes “the contractual power to determine who will comprise the management and their remuneration, and the right to determine the allocation of residual gains and losses” (Hay et al., 1994: 424). The ownership structure “allows the state to maintain direct-authority relations over most

of its output” and “permits a command system to function unimpeded” (Naughton, 1996: 29).

Researchers (e.g., Chen, D.R. 1995; Kaple, 1994; Warner, 1995) have pointed out that central planning enabled the government to exert strong and direct control over industry and management, while the enterprises acted as basic production units to fulfil state plans. The nature of public ownership also moulded the enterprise into a basic social unit or a mini-society that had to take on various social responsibilities (Walder, 1986; Lin et al., 1996). These two major characteristics of the command economy - central planning and public ownership - later became targets of economic reforms in China.

In the socialist economy, public ownership was the most essential feature as private ownership belonged to the capitalist economy (Chen, D.R. 1995: 51). Public ownership of the means of production was regarded as one of the most important characteristics of socialism in China (Lin et al., 1996), and was referred to as the material foundation of the superiority of socialism (Hsu, 1991). Child (1994) has noted that the Chinese concept of ownership is different from the western one. He observed that:

The Chinese concept of ownership (*suoyouzhi*) is appreciably more ambiguous and is a political and ideological consideration rather than an economic and legal one. The term *suoyouzhi*, when used in China, implies an overall system of governance based on the ideological principles of socialism, such that all the means of production are ultimately a public asset and that the state acts as the custodian of this public ownership (Child, 1994: 19).

Similarly, Hay, et al. (1994: 426) have stated that “in practice the ownership of enterprises [in China] is in the hands of the institutions of the state”, because these

institutions control managers through hiring, firing and compensation, and they have the right to allocate residual surpluses, losses or risks. As a public ownership structure could pave the way for adopting central planning (Chen 1987: 158), the Communist Party of China (CPC or the Party) launched the movement of socialist transformation soon after it took power. In the late 1950s the mixed economy of 1949 was simplified to a public-dominated ownership structure. The public or state ownership structure was further consolidated until the late 1970s when reforms started. This transformation of the ownership structure can be divided into three major phases (Wang, 1994):

- (1) a mixed ownership structure (1949-52);
- (2) a primitive stage of socialist ownership (1953-57); and
- (3) the establishment and consolidation of a state ownership structure (1958-78).

The first two phases represented two important periods of economic development: economic rehabilitation and socialist transformation run concurrently with the first five-year plan. The last phase covered two decades, which included three important periods in economic development: the Great Leap Forward (1958-61), economic readjustment (1962-65) and the Cultural Revolution and its legacy (1966-78). The following discussion covers the changes in economic development and the formation of ownership structure during the period from 1949 to 1978.

### **2.2.1 Economic rehabilitation and mixed ownership structure (1949-52)**

On the eve of the foundation of the PRC, the ownership structures in most parts of China except those areas already controlled by the CPC could be classified into five types: foreign capitalist ownership; bureaucratic capitalist ownership (i.e., the bureaucrat monopoly capitalist of the former Kuomintang government); national

capitalist ownership; a feudal system of land ownership; and individual handicraftsmen ownership. Immediately after the PRC was established, the state confiscated all assets of the bureaucratic capitalists, including “2,858 industrial enterprises employing more than 750,000 industrial workers” (Cheng, 1963: 61). Through the nationalisation of major banks, railways and shipping companies and foreign trading companies, “the great majority of industrial concerns thereby came under State control and a socialist economic sector owned by the whole people was established” (Bharadwaj, 1995: 17).

A nation-wide movement for land reform in the early 1950s destroyed the feudal system of land ownership and established the individual economy of peasants in rural China. In urban areas, the government’s policy of “utilisation, restriction and transformation” of national capitalist industry aimed to foster nationalisation step by step through peaceful transformation (Cheng, 1963; Kuan, 1960). This helped the government to obtain adequate resources and to bring the economy on its feet (Laaksonen, 1988). However, during the economic rehabilitation period, the focus was on “utilisation” of capitalist industry, that is, private enterprises were permitted and encouraged in the interests of production, but were subject to government control. At the same time, joint state-private enterprises appeared as a new form of economy - state capitalism, where capital was privately supplied with interest paid, while direction and control were mainly in the hands of the state. As for the individual handicraftsmen and other individual workers, the government encouraged them to organise into groups, such as handicraft co-operatives. Collectivisation formed an initial form of collective ownership by the working masses (Cheng, 1963; Kuan, 1960; Laaksonen, 1988).

At the end of 1952 there were four types of ownership structure in urban areas: state-owned, collectively owned, national-capitalist-owned, and enterprises or businesses individually owned by labour (Wang, 1994). In this mixed economy, the proportion of publicly owned industry was continually increasing in comparison to the private sector. Hughes and Luard (1959: 30) reported that “the output of state-owned industrial enterprises, including co-operatives and industries jointly operated by state and private capital, increased from 36.7% of the nation’s total industrial output in 1949 to 61% in 1952”. With the co-operation of the private sector, industrial production grew, on average, by about 34.8% a year during this period (Laaksonen, 1988: 105). In his report at the first National People’s Congress in 1954, ex-Premier Zhou Enlai announced that, during the first three years of the regime, the central government had rehabilitated the national economy (Cheng, 1963).

In 1952, the State Planning Commission of the PRC was established. Its main task was to develop annual and five-year plans, and to organise and monitor the implementation of these plans. Many researchers (e.g., Laaksonen, 1988; Nolan, 1995; Riskin, 1987; Talas, 1991) have pointed out that the planning system and economic management in China at this stage was based completely on Soviet experience and methodology as well as on the Soviet system of economic institutions. By the end of this period, having successfully reconstructed the economy and established economic institutions, the central government was ready to initiate a more comprehensive and rigidly controlled program to pursue its big push or heavy-industry oriented strategy (Dernberger, 1982; Lin et al., 1996; Naughton, 1996).

### **2.2.2 Transformation and establishment of socialist ownership (1953-57)**

In 1952, after the economic recovery, the CPC and the central government promulgated the “General Line of the State” as a guideline for socialist transformation (see Cheng, 1963; Hughes & Luard, 1959; Lee, 1987; Wang, 1994). The General Line specified the fundamental aims of the state during the period of transition based on Mao’s instructions: to bring about the socialist industrialisation of the country, and to accomplish the socialist transformation of agriculture, handicrafts and capitalist industry and commerce (abbreviated to *yihua sangai* in Chinese) (see Kuan, 1960: 7).

The socialist transformation was aimed at transforming private ownership of the means of production into socialist ownership, and it was believed that “the work of developing socialist industry and transforming the non-socialist economic sectors was interconnected ... and would accelerate the country’s socialist industrialisation” (Kuan, 1960: 9). The transformation began in 1953 with the launch of the first five-year plan. In the area of handicrafts, the transformation took the form of co-operatives. In 1955 about 27% of craftsmen were organised into groups of co-operatives and at the beginning of 1956, all artisans in entire regions and trades were pushed into producers’ co-operatives based on collective ownership (Riskin, 1987: 98).

Transformation of capitalist industries occurred in two stages: first, from private capitalism to state capitalism, then from state capitalism to socialism (Bharadwaj, 1995; Cheng, 1963; Laaksonen, 1988). State capitalism was realised in several steps, moving from a lower or elementary form to a higher or advanced form (Cheng, 1963; Kraus, 1991; Lee, 1987). In the “lower form”, which was “a contract-oriented planning system” (Lee, 1987: 22), the state exercised its control over the private sector by

providing contracts, supplying materials, allocating orders or purchasing products. The private business or joint state-private enterprises thus became increasingly dependent on the government. However, they were still privately managed by capitalists. In the “higher form” of state capitalism, which was “a target-oriented planning system” (Lee, 1987: 22), the government was concerned with comprehensive economic planning on the basis of targets as well as the source and distribution of materials. This “higher form” represented a high degree of centralisation and the state placed direct control over the firms’ production, including “the management function, the authority determining the operation plan, and personnel policies” (Cheng, 1963: 69).

In 1955, in dealing with the issue of state trusts, the government started to pay owners of private businesses 5% interest for their assets over a duration of 20 years (this payment was stopped during the Cultural Revolution and was reinstated afterwards) (Chen, D.R. 1995). This buy-out of private businesses officially reduced the status of owners of private firms to state employees, and greatly diminished the private sector. Table 2-1 shows that the private sector made up 22.8% of total industry in 1953 but dropped to zero in 1956 when private capitalist industrial and commercial firms were uniformly transformed into state-private joint companies in every sector of the economy (Bharadwaj, 1995; Kraus, 1991; Riskin, 1987). The socialist transformation was initially intended to be realised over three five-year plan periods, that is, by around 1967 or perhaps later (Talas, 1991; Wang, 1994). However, strongly influenced by Mao’s radical ideology and the Stalinist big push development strategy, the socialist revolution in the ownership of production means was largely completed by 1956. Table 2-1 demonstrates that private industry did not survive beyond the year 1956.



**Table 2-1 Socialist transformation of private industry in China (1949-57)<sup>a</sup>**

Year	Socialist industry	State-Capitalist industry		Private industry <sup>b</sup>
		Joint state-private enterprises	Private enterprises executing orders and processing goods for the state	
1949	34.7	2.0	7.5	55.8
1953	57.5	5.7	22.8	14.0
1954	62.8	12.3	19.6	5.3
1955	67.7	16.1	13.2	3.0
1956	67.5	32.5	--	--
1957	68.2	31.7	--	--

<sup>a</sup> Percentage distribution of gross output value of industry, excluding handicrafts.

<sup>b</sup> This refers to the enterprises which produced and marketed privately.

Sources: Cheng (1963: 73) and Wang (1994: 50).

The fundamental transformation of the pattern of ownership in the Chinese economy over this period established a socialist ownership structure, i.e. the means of production was transferred from private hands to public or collective ownership. Along with the transformation of ownership, China's planning system was highly centralised, "in the sense that a fairly large number of targets of different kinds were drawn up, and their fulfilment directly supervised, from the centre, for an originally small but rapidly growing number of goods" (Risking, 1987: 55). For example, the number of centrally administered enterprises increased from 2,800 in 1953 to more than 9,300 in 1957, and the number of centrally allocated goods increased from 220 to 530 over the same period (He & Wang, 1984: 62).

During the period of transformation, a multi-level hierarchy of planning was established and the economic bureaucracy stretched from central to local authorities. In 1956, the State Economic Commission was formed to monitor and co-ordinate short-term planning responsibilities (i.e. to formulate and supervise yearly plans and day-to-day adjustments of planning targets if necessary), permitting the State Planning

Commission to concentrate on long-term strategic planning. Central planning thus largely replaced the market mechanism (Hughes & Luard, 1959; Jackson, 1992; Riskin, 1987).

Despite the storm-like socialist transformation, China's economic development was surprisingly fast and successful during the first five-year plan period. On average, the total annual value of industrial output increased by 18% (Talas, 1991: 32). Riskin (1987) has observed that the first five-year plan scored major successes in laying the foundations for the industrialisation of China. However, during this period, China followed the Soviet experience strictly, maintaining, for example, a strong emphasis on heavy industry and a highly centralised planning system (Laaksonen, 1988; Lin et al., 1996; Riskin, 1987).

### **2.2.3 Economic instability and consolidation of socialist ownership (1958-78)**

Hughes and Luard (1959) have noted that the declared aim of the CPC from the very beginning was to establish a totally socialist society in China, in which all the means of production and distribution would lie in the hands of the state. This aim was largely realised by the end of the transformation period. In 1959, after 10 years, the state declared that the situation in which different economic elements existed side by side had been replaced by a monolithic socialist economy, i.e. socialist public ownership was dominant in the economy (Cheng, 1963).

Socialist public ownership consists of two categories, one being ownership by all people and the other being collective ownership by the working people (i.e. ownership by members of a collective or co-operative). The former is invariably equated with

“state ownership” on the grounds that the socialist state represents all the people and their interests, whereas the latter is called “collective ownership” (Hsu, 1991). In China, state ownership was traditionally regarded as the best form of socialist ownership, thus superior to collective ownership (Chen, D.R. 1995; Hsu, 1991). Therefore, state ownership was always emphasised whereas collective ownership was neglected. Even the necessary supplementary role of individual private ownership was ignored (Pu, 1990). After completion of the socialist transformation and subsequent establishment of a socialist ownership structure, more firms were transformed from co-operatives (collective ownership) to state-owned enterprises. This occurred particularly during the Great Leap Forward and the Cultural Revolution when handicraft co-operatives or collectively owned firms were uniformly transformed to state ownership or quasi (i.e., local) state ownership (Wang, 1994). Until 1978, China’s ownership structure was quite simple in that there was only one major player in industry (i.e., the public sector) and the state-owned enterprises played the dominant role in the industrial sector (Chen, D.R. 1995; Wang, 1994).

While the ownership structure was increasingly monopolised by the public sector, the economy experienced erratic fluctuations in the growth rate, which occurred in three periods marked by major political movements that took place between 1957 and 1978. The first period, 1958-61, occurred during the Great Leap Forward when the gross value of industrial and agricultural production increased by 32.2% in 1958 from the previous year and then declined precipitously by 30.9% in 1961 (see Table 2-2). The second period, called the ‘economic readjustment’, occurred between 1962 and 1965. Table 2-2 shows that although 1962 recorded a 10.1% decrease in production from 1961, production actually increased by 9.5%, 17.5% and 20.4% from 1963 to 1965

respectively. The last major fluctuation was the result of the so-called Cultural Revolution between 1966 and 1976. Table 2-2 indicates that changes in production level varied considerably year to year until it dropped to one of the lowest levels in 1976 (1.7% increase).

**Table 2-2 Percentage increase of gross value of industrial and agricultural production (1956-78)**

Year	% Increase from previous year	Year	% Increase from previous year
1957	7.9	1968	-4.2
1958	32.2	1969	23.8
1959	19.5	1970	25.7
1960	5.4	1971	12.2
1961	-30.9	1972	4.5
1962	-10.1	1973	9.2
1963	9.5	1974	1.4
1964	17.5	1975	11.9
1965	20.4	1976	1.7
1966	17.3	1977	10.7
1967	-9.6	1978	12.8

Source: Adapted from Bharadwaj (1995: 32-33).

Economic development in China prior to the economic reforms often involved “a different degree of centralisation and control in the relationships between government and enterprise, as well as a different emphasis between ideological/moral and economic/material principles” (Child, 1994: 35). Child’s observations are well illustrated by the three periods of economic instability, i.e., (1) the Great Leap Forward (1958-61); (2) the Economic Readjustment (1962-65); and (3) the Cultural Revolution (1966-1976). The rest of this section discusses these three periods in more detail, analysing the rise and fall of economic development, and the variable control of the central government over industrial enterprises.

(1) *The Great Leap Forward and decentralisation (1958-61)*. In September 1956 the CPC held its Eighth Party Congress in Beijing. It was recognised at this meeting that the overemphasis on heavy industries had caused the production of consumer goods and the raw-materials industries to lag behind the development of the economy as a whole. Thus the main task was to achieve national industrialisation to satisfy the people's increasing material and cultural demands (Hughes & Luard, 1959; Wang, 1994). The problems of central planning were also raised at this conference, including "frequent changes, long delays, the inadequate inventory of materials, false projections and the lack of financial control" (Lee, 1987: 50).

Consequently, the State Council announced its decision on the administrative decentralisation of industry in November 1957.<sup>1</sup> The control of many industries was shifted from the central ministries to those of provincial and local administrators. During 1958, 80% of the enterprises formerly handled by the central ministries were handed over to the local authorities (Hughes & Luard, 1987). At the same time, the number of targets set by the state for production enterprises were reduced from twelve to four: "the volume of production, the number of workers, the total amount of wages, and the level of profits retained" (Hughes & Luard, 1987: 62).

However, the proposal of the CPC's Eighth Congress to realise national industrialisation was not carried out in the second five-year plan (meant to start in 1958), and the administrative power offered to lower level authorities due to decentralisation failed to facilitate economic development. This failure was largely

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<sup>1</sup> For example, see Schurmann (1968) and Riskin (1987) for further discussion of different categories of decentralisation.

because of the launch of the 'Great Leap Forward' movement in early 1958. At the end of 1957, with the success of socialist transformation, Maoists believed that the development of industry could be similarly accelerated. When the Great Leap Forward was initiated by Mao Zedong, it called for "a doubling of output within one year" (Laaksonen, 1988: 109). It was hoped that "China would soon surpass the United Kingdom's level of economic development and catch up to that of the United States" (Lin et al., 1996: 48). The most popular slogan of the time was 'to catch up with Britain in 10-15 years in output of iron, steel and other major industrial products, and carry out the transition from socialism into communism'. In May of 1958, the policy of a new general line (*zong lu xian*) for socialist construction, 'to achieve greater, faster, better and more economical results in building socialism' (abbreviated to *duo, quai, hao, shen* in Chinese), was adopted at the second session of the CPC's Eighth National Congress.

The new general line, the rashly implemented Great Leap Forward and the 'People's Commune' movement, all contributed to the worst setback in the history of economic development in the PRC. Strongly influenced by these political movements, the central government advocated larger production units and a higher degree of public ownership (abbreviated to *yida ergong* in Chinese) (Ishihara, 1993; Ma, 1993; Wang, 1994). Under the banner of *yida ergong*, 99.1% of Chinese farmers in rural areas joined the People's Communes within a short period of three months in late 1958. In urban districts, many handicraft co-operatives were transformed into state-owned factories to produce iron and steel and other heavy industrial goods (Riskin, 1987; Wang, 1994). It was reported that from 1958 to mid- 1959, over 4 million handicraft workers were

transferred to work in industrial factories, and this caused a sharp increase in public sector employment (Cheng, 1963; Donnithorne, 1967).

Mao's mass movement to accelerate industrial development and especially his "politicisation of economic decision-making" (Riskin, 1987: 83) soon proved to be disastrous. Sharp declines in agricultural output were recorded in 1959, 1960 and 1961, which led to food shortages and widespread famine (although official reports at the time always attributed this disaster to natural catastrophes). It was reported that the agriculture crisis led to an estimated 30 million deaths (Banister, 1987; Lin, 1990). The agricultural collapse greatly affected the industrialisation program. Shortages of raw materials forced many light industries to operate below capacity (Cheng, 1963). Table 2-2 shows that industrial output declined significantly in 1961 (30.9% less than the previous year). The major reasons for the failure of the Great Leap Forward are summarised by Riskin (1987: 139) as: the use of "politics in command" to override objective constraints; the glorification of output quantity *per se*, without regard for quality or variety; and the emphasis on spiritual incentive rather than on material motivation.

(2) *The economic readjustment and changes in state control (1962-65)*. As the crisis caused by the Great Leap Forward mounted, the CPC convened its ninth plenary session in January 1961 to probe the situation. At this session, new policies aimed at alleviating the crisis were approved and adopted. The guiding policy of the recovery period was 'readjustment, consolidation, enrichment and improvement of the national economy' (Bharadwaj, 1995; Cheng, 1963; Wang, 1994). In September 1961, the Central Committee of the CPC passed its 'Directive on Current Industrial Problems'

(cited hereafter as the 'Directive'), identifying difficulties to be overcome during the period, including economic imbalance, the unrealistic pace of growth in the industrial sector, and chaos and confusion in managerial tasks (Lee, 1987).

In December 1961 a conference of Communist Party secretaries in charge of industrial work was held. During the conference, a document titled 'Seventy Articles for Regulations in Industry' was discussed and later distributed to industrial enterprises (cited hereafter as the 'Seventy Articles', see Section 2.3.3). The Seventy Articles constituted general strategies to reverse the adverse consequences of the politicised and mass-oriented managerial style of the Great Leap Forward (Andors, 1977; Lee, 1987; Riskin, 1987). The issuing of the guiding policies (i.e. the Directive and the Seventy Articles) officially commenced the period of economic readjustment. These policies covered the main economic strategies, such as readjusting the growth rate, restoring balance between agriculture and industry as well as between heavy and light industry, emphasising production quality and variety rather than mere quantity, and re-establishing regular management systems in the industry (Riskin, 1987: 149).

During the period of the Great Leap Forward, the provincial government together with the Party committee were supremely powerful whereas individual units had very little autonomy over decision-making (Schurmann, 1968). With the failure of the Great Leap Forward, the influence of the Maoist group was weakened and others in the Party attempted to grant broader decision-making autonomy to individual enterprises (Jackson, 1992: 19). However, this decentralisation was short-lived. The state moved to reassert strong central control over the economy early in the recovery period. At a working conference of the Central Committee of the CPC held in January 1962, Liu



Shaoqi (the Chairman of the PRC at that time) stated in his report that too much power had been delegated to the local level, which caused a fragmentation of power in the post-Leap period. Liu Shaoqi therefore re-centralised power to the central and regional bureaus so that all human, material, and financial resources could again be centrally allocated (Lee, 1987: 76). The planning management system thus returned to its pre-1957 configuration (Ishihara, 1993). Riskin (1987) has observed that in 1957-58, many centrally controlled enterprises and centrally allocated goods and materials were decentralised, i.e. the control power was shifted from the central government to local provincial or municipal governments. However, following Liu Shaoqi's re-centralisation, by 1963, 87% of these decentralised enterprises and 75% of locally controlled goods and materials had been returned to the jurisdiction of the central government.

In order to remedy economic imbalance, the state brought to effect the policy of 'transfer, merger, closure and stoppage' in the industrial reorganisation. In May and June 1962, 19,000 inefficient and unprofitable factories were either closed down or transferred and merged, by reducing or stopping their supply of raw materials, fuel and electricity, working capital, and wages, and by food rationing (Lee, 1987: 76). It was reported that between 1961 and 1962, over 20 million workers were retrenched, most of whom were sent back to country areas to perform agricultural work (Bharadwaj, 1995; Duan & Liu, 1994; Talas, 1991). A considerable number of them had been rural farmers who had migrated into the cities during the Great Leap Forward to carry out large-scale construction projects. In addition, most state-owned or local state-owned enterprises, which had been transformed from handicraft co-operatives during the Great Leap Forward, were grouped into the collective ownership sector again. These

collectively owned enterprises, unlike state-owned enterprises that could depend on the state, had to assume responsibility for their own profits and losses (Wang, 1994). Profitability became a more important indicator of enterprise performance in the early 1960s (Laaksonen, 1988; Riskin, 1987).

As a result of economic and political readjustments, the national economy revived and developed smoothly from 1963 to 1965. As Table 2-2 shows, production increased by 9.5%, 17.5% and 20.4% respectively during these three years. As soon as the economy was on its way to recovery, the central government slackened its control, and a second administrative decentralisation took place in 1964, but this did not bring any significant changes (Ishihara, 1993; Riskin, 1987). The cycle of centralisation-decentralisation occurred because “with centralisation, a greater degree of balance exists but the economy becomes 'lifeless', and with decentralisation, the economy is enlivened but tends to run amok” (Lin, 1981: 46). This situation was described as “the cyclical vigour/chaos phenomenon” (Lin et al., 1996: 12-13) or “a long-run pattern of centralisation - rigidity - criticism - decentralisation - chaos - centralisation” (Yu Guangyuan, a noted Chinese economist, 1984: 76). The dysfunction of such administrative control was observed again during the Cultural Revolution.

*(3) The Cultural Revolution and further decentralisation (1966-76).* At the end of 1964, Ex-Premier Zhou Enlai outlined an economic strategy for the period from 1966 to 2000 in his report to the National People’s Congress. According to his report, 1966 was supposed to be the first year of the third five-year plan of the national economy and China was to complete the comprehensive modernisation of agriculture, industry, defence and science and technology before the turn of the millennium (Talas, 1991).

However, just as the economy was beginning to develop further after the economic readjustment, a nation-wide disruption took place in 1966 in the form of the 'Cultural Revolution'. This political movement, as emphasised by many researchers (e.g., Bharadwaj, 1995; Child, 1994; Riskin, 1987), placed politics and ideology more firmly in control than they had ever been, and enabled Mao to use personal decrees to replace the previous collective leadership of the Central Committee. The Cultural Revolution brought severe destruction to the political and social lives of people in the PRC, as well as terrifying havoc on the national economy. It lasted for a decade and ruined the third and fourth five-year plans (1966-70 and 1971-75) proposed by Ex-Premier Zhou Enlai in 1964.

With the full-scale launch of the Cultural Revolution in mid-1966, especially in the wake of the 'Red Guard' movement, the whole country was pushed into anarchy and turmoil. To facilitate his political purge, Mao Zedong declared that a considerable number of bourgeois representatives and counter-revolutionary revisionists were hidden in the Party and the government. Consequently, tens of thousands of government and Party leaders or cadres were severely criticised and condemned by Red Guards and 'revolutionary rebels' for following the so-called Liu Shaoqi's bourgeois reactionary line rather than Mao's revolutionary line. These cadres were labelled the 'capitalist roaders' (i.e., walking along the road of capitalism) and were not only deprived of all their previous decision-making powers but also humiliated and physically attacked. Such political persecution resulted in the death of many cadres including Liu Shaoqi, the former Chairman of the PRC (Riskin, 1987; Talas, 1991). With leadership paralysed in many organisations, especially those in cultural, administrative and industrial sectors, various mass organisations began to crop up and

formed rival factions. From late 1966, as a consequence of the general anarchy and chaos, the factional strife escalated from verbal struggles (*wendou*) to violent fights (*wudou*) in many areas (Andors, 1977; Bharadwaj, 1995; Talas, 1991).

In early 1968, the army was called in to help re-establish order. The army was authorised to become an administrative force and was given symbolic legitimacy. This was done in order to bring middle and higher levels cadres back into administrative and production activities, and to sustain production in the industrial sector (Andors, 1977). Beginning in 1968, 'revolutionary committees' were set up in organisations with the participation of representatives from the army and mass organisations and so-called 'revolutionary cadres'. These revolutionary committees were endorsed by Mao Zedong as "provisional organs of power" based on a fusion of the Party and government bodies (Bharadwaj, 1995: 41). The management of revolutionary committees will be discussed in detail in the second part of this chapter.

By the middle of 1968, the effort to establish revolutionary committees merged into a mass campaign for 'struggle-criticism-transformation' (*dou-pi-gai*) (Andors, 1977; Lee, 1987). The campaign aimed to overpower so-called revisionists such as Liu Shaoqi, Deng Xiaoping and their followers, to reprimand revisionist regulations and systems, and to transfer managerial staff to the production line. This campaign was initiated by Maoists and attempted to "revolutionise the administrative structure and enterprise management" (Lee, 1987: 113). As a result of the campaign, the policies and regulations proposed by the 'Seventy Articles' in the period of 1961-66 were condemned for being in line with Liu Shaoqi's bourgeois reactionary sentiments and therefore banished.

Along with the criticism of the Seventy Articles, there was a drive during the Cultural Revolution to 'upgrade' or transform collectively owned urban industrial enterprises into state-owned enterprises (Ishihara, 1993; Wang, 1994). Maoists believed that the system of ownership was the decisive factor in the relations of production and that the establishment of public ownership was a great accomplishment (Riskin, 1987: 190). Many organisations that were downgraded to collective ownership during the period of the economic readjustment were again transferred to state ownership. For example, 55% of collectively owned factories under the Beijing Municipality Second Industrial Bureau were changed to state ownership (Ishihara, 1993), and all supply and marketing co-operatives in China were uniformly upgraded from collective ownership to the state-owned business sector in 1975 (Wang, 1994). Privately owned businesses that had been encouraged during the economic readjustment period were accused of being 'bourgeois products' and were closed down during the Cultural Revolution. The drive to pursue a public-dominated ownership structure resulted in state monopoly of commodity production and marketing, and virtual elimination of the free market.

While more enterprises were transformed from collective to public ownership, a major decentralisation of economic authority occurred between 1970 and 1973 (Andors, 1977; Ishihara, 1993; Riskin, 1987). Most of the centrally controlled enterprises were shifted to local governments that assumed responsibility for supplying materials and distributing products, and for capital construction and financial management. However, this decentralisation resulted in an anarchic development of enterprises, and proved as dysfunctional as the previous centralisation (Ishihara, 1993). In 1975 when Deng Xiaoping became Acting Premier, he issued a major policy paper 'Certain Questions on Accelerating the Development of Industry' (also called the 'Twenty

Points'). This paper pointed out the dysfunction of decentralisation and criticised local governments for:

failing to manage enterprises effectively, ignoring the national interest and central plans, changing the product line of decentralised enterprises, failing to fulfil output and supply quotas, wasting materials and funds, increasing staff size, raising the wage bill, and changing product prices at will (Riskin, 1987: 198).

During the ten years of chaos, industrial development fluctuated considerably as a result of the political struggle between the so-called 'proletarian' or Maoist left line and the 'bourgeois' or anti-left line. The domination of the Maoist left line for over ten years caused a sharp decline in China's economic development. Bharadwaj (1995: 49) used independent accounting records kept by some state-owned industrial enterprises as examples to demonstrate how economic returns declined during the period of ten-year turmoil. Table 2-3 shows that taxes and profits realised from every 100 yuan (Chinese dollar) of capital dropped by 44.1% (from 34.5 yuan in 1966 to 19.3 yuan in 1976); taxes and profits from every 100 yuan of net fixed assets declined by 37.8% (from 46.4 to 29 yuan); profits from every 100 yuan of total industrial output value decreased by 42.5% (from 21.9 to 12.6 yuan); and output value per 100 yuan of gross fixed assets decreased by 12.8% (from 110 to 96 yuan). However, the working capital used for every 100 yuan of total output value increased from 23.5 yuan in 1966 to 36.9 yuan in 1976, a rise of 57%. This increase in working capital could be attributed to large quantities of sub-standard or rejected products that failed to meet consumers' needs. The data in Table 2-3 indicates that during the ten-year Cultural Revolution, industrial production was characterised by increased capital investment and use of manpower, and increased consumption of energy, raw materials, but lower economic efficiency and lower returns.

**Table 2-3 Changes in economic returns in 1966-76 of industrial enterprises keeping independent business accounting records (measured in Chinese dollar - yuan)**

	1966	1976
Taxes and profits per 100 yuan of capital	34.5	19.3
Taxes and profits per 100 yuan of net fixed assets	46.6	29
Profits per 100 yuan of total value	21.9	12.6
Output value per 100 yuan of gross fixed assets	110	96
Working capital per 100 yuan of total output value	23.5	36.9

Source: Bharadwaj, 1995: 49.

The Cultural Revolution was brought to an end in 1976 by Mao's death and the fall of the 'Gang of Four' (referring to Mao Zedong's widow Jiang Qing and the other three radicals from Shanghai, Wang Hongwen, Zhang Cunjiao and Yao Wenyan). However, the major features of the Chinese economy (i.e. a highly centralised planning system and a public-dominated ownership structure) remained unchanged and unchallenged until economic reforms began in the late 1970s (Child, 1994; Laaksonen, 1988).

### **2.3 The Impact of the Economic System and Ownership Structure on Management in the Industrial Sector**

The adoption of a heavy-industry oriented development strategy resulted in the development of a command economic system. Under this system, the state ownership of most productive resources guaranteed the government's control of resources, and a highly centralised planning apparatus enabled direct steering of resources to planners' priority uses. As a result, the state ownership structure was consolidated and state-owned enterprises became dominant in the industrial sector (Lin et al., 1996; Naughton, 1996). In 1978, state ownership accounted for 77.6% of gross industrial

product, with collectives accounting for the remaining 22.4% (Statistical Yearbook of China, 1993). In the context of such a centralised planning system and public ownership, the major features of management differed significantly from those defined in advanced Western market economies.

Hay and colleagues (1994) have noted that in the West, ownership and resource co-ordination that is conducted by management are more distanced from each other. While the ownership function of shareholders of a firm appears to be purely that of residual risk-bearing, the management is given full control of the operation of the firm. “The defining characteristic of management [in the West] is that it co-ordinates the contracts and the activities they specify, hence management is the immediate manifestation of the ‘conscious power’ which determines resource allocation, production, and distribution” (Hay et al., 1994: 424).

In contrast, neither the state institutions which effectively exercise the ownership function of enterprises in China nor the managers of the enterprises had sufficient incentive to be efficient because neither of them bore residual risk (see Hay et al., 1994: 426 for the allocation of residual risk by state institutions). This was because central planners “created a system in which property rights were vague or non-existent”, so they could have maximum discretionary control (Naughton, 1996: 30). Without assuming any risk and having no right to allocate residual profits or losses, Chinese managers did not have any incentive to pursue efficient, profit-maximising strategies in their production and distribution activities (Hay et al., 1994; Liew, 1997). Chinese enterprise managers were thus not in an environment that stimulated them to carry out their supposed duties in full capacity (in a Western sense) and the “problems



of managerial autonomy and accountability” became characteristic of state socialist economies including China (Child, 1990: 142).

While management had different features in China due to the economic system and ownership structure, it was also affected directly by politics and Mao’s ideology (Lee, 1987; Riskin, 1987; Walder, 1986). Jackson (1988: 338) has pointed out that “management and labour policies have, throughout the history of the PRC, been subject to changes in the ideological stance of the Party leadership”. Before the founding of the PRC, enterprises in the revolutionary base area (also called the liberated area) were managed by a ‘three-man team’ (*san-ren tuan*) composed of the factory director, Party secretary and union committee member (Xia, 1991: 587; Ye, 1991). Given that any Chinese trade union was in practice subordinated to Party authority, “the main shifts in enterprise leadership have been between the primacy of management and the Party, reflecting shifts between economic and political criteria” (Child, 1994: 59). These shifts were clearly observed during Mao’s regime even though “the unity of political and economic leadership and Communist Party primacy” was adopted as the first management principle in the PRC’s first industrial management handbook (Kaple, 1994: 61). These leadership shifts demonstrate the profound and lasting impact of politics, economics and ownership structure upon management policies and practices.

To examine the impact of politics and the economic system on management, the four sections of this part of the chapter will cover the major changes in enterprise management policies and practices between 1949 and 1978. The changes or shifts can be grouped into four stages according to Lee (1987: 115). The first stage was in the

period of economic rehabilitation and socialist transformation (1949-57), during which the one-man management system was installed with an emphasis on material incentives and regulatory controls. The second stage, during the Great Leap Forward (1958-61), was dominated by Mao's 'proletarian line' that stressed the commanding role of the Party, the importance of political ideology and the leading role of the workers. The third, which occurred during economic readjustment (1962-65), resurrected the practices and policies of the first stage and witnessed the implementation of the Seventy Articles for Regulations in Industry. The final stage, during the Cultural Revolution (1966-76), revived Mao's dominance and ended up eliminating the 'bourgeois line' advocated by Liu Shaoqi. These four stages of management practices are reviewed in the following four sections.

### **2.3.1 One-Man management**

In the early 1950s, a new regulation, Industrial Management Mechanism (*gongye guanli jizhi*), was proposed by the CPC. This document relied heavily on the Soviet management model, with adoption of the "one-man management" system being one of its ten principles (see Kaple, 1994: 62 for the rest of the principles). The One-Man (also called 'one-director' or 'one-boss') management system was initially introduced to North-East China after the CPC took over the region in 1948. A key figure was Gao Gang, the Party leader in the North-East area and first head of the State Planning Commission. The North-East region was the base of China's heavy industry and was greatly influenced by the Soviets due to the large number of Soviet aid projects. Gao claimed that the one-man management system would enable separation of the state apparatus from the Party organisation, i.e. the factory director would be granted exclusive power over production and administration whereas the Party committee

would just supervise and ensure the fulfilment of the production plan. Gao also believed that the system made it possible to have individual responsibility, division of labour and increased motivation (see Lee, 1987: 26-9). The implementation of the One-Man management system was officially approved by the Party Central Committee in 1953 along with the commencement of the first five-year plan (Andors, 1977; Zheng, 1987). Riskin summarised this management system as,

a combination of 'scientific management' and a hierarchical 'responsibility system' of leadership. The former entailed the formulation of precise work plans for all phases of factory operations, and their translation into minutely specified job tasks. The latter put one person in complete control of each unit and level of a factory, with supreme authority vested in the plant director (1987: 45).

Under this management system, the factory director "was given unified authority over all activities within the factory, and took overall responsibility for fulfilling state plans and for factory production, finance and administration" (Child, 1994: 60). This enabled the chain of command to go vertically from the factory director down to production team leaders. It was believed that the system would suit central planning which required effective channels of command and an organisational structure that allowed for the smooth upwards and downwards flow of information (Schurmann, 1968). The system was reported to be highly efficient and conformed to the laws of economic development (Zheng, 1987: 299), and produced "unity of command" (Schurmann, 1968: 262). Consequently, piece-rate wages and a bonus incentive system became popular as they fitted the control requirements of one-man management (Andors, 1977; Laaksonen, 1988). By the end of 1952 slightly over one-third of all industrial workers were paid this way, and by 1956 about 42% of all industrial workers belonged to a piece-rate incentive system (Laaksonen, 1988: 199). To summarise, the key feature of the One-Man management system was, as noted by Lee (1987: 44-5), its

“authority orientation”, i.e. a highly rationalised and centralised system and an organic state socialism with both material and non-material incentives.

However, One-Man management was not favoured by the Party organisations as their doctrine was “the Party apparatus should directly manage industry” (Lee, 1987: 31). The system was also resisted by many Party cadres as they believed that “this system led to a diminution in the functions of the Party committee” (Schurmann, 1968: 263). Because of this resistance and a differential “pace of political consolidation and economic recovery” (Lee, 1987: 31), the system was not universally implemented by the time it was abolished. At the Eighth Party Congress in 1956, One-Man management was condemned officially for violating ideological principles favoured by Mao such as the supremacy of the Party and politics, and neglecting democratic management (Lee, 1987; Riskin, 1987; Zheng, 1987). The system was further reprimanded by official articles for its “reliance upon a minority of ‘experts’, material incentives, and excessive and unnecessary regulations” (Lee, 1987: 63). In addition to political and ideological reasons, other factors contributed to the abandonment of the system, including lack of professionally trained managers, lack of objective measurement for performance, and blind copying of the Soviet model without considering different national cultures and traditions (Andors, 1977; Laaksonen, 1988; Schurmann, 1968). A new system of industrial management, ‘Director Responsibility System under the Leadership of the Party’(DRSULP), was recommended in a report to the Eighth Party Congress to replace the One-Man management system. The Congress hence called for universal implementation of the new system in industrial enterprises. The new system emphasised the combination of the Party’s collective leadership and

individual responsibility, with the Party as the core of the leadership (Zheng, 1987; Schurmann, 1968).

### **2.3.2 Management under collective leadership of the Party and the ‘Two-One-Three’ system**

The adoption of the director responsibility system under the leadership of the Party (DRSULP) system in late 1956 represented a shift from individualism to collectivism, and from “centralism” to “democracy” (Schurmann, 1968: 291). This meant that while the factory manager was still responsible for everyday operations and administration, all major decisions were to be made collectively by the factory’s Party committee. Apart from this lateral shift of authority from managers to the Party, decision-making powers were also shifted downward from managers to workers at shop floor level to achieve “democratisation of management” (Kaple, 1994: 65). After the PRC was founded, many enterprises instituted workers’ committees under the leadership of the Party, such as the Factory Management Committee and the Factory Employees’ and Workers’ Conference, to democratise management. These committees had played only a minimal role under One-Man Management as they were inconsistent with the Soviet model (see Kaple, 1994: 66-71). However, in 1957 under the DRSULP system, the Factory Employees’ and Workers’ Conference (hereafter called the Workers’ Conference) was encouraged to be revitalised to carry out Mao’s “mass-line” or “mass-oriented style of industrial management” (Lee, 1987: 60), which meant “mass participation in enterprise management and supervision” (Child, 1994: 62).

With the launch of the Great Leap Forward in early 1958, the management system in industrial enterprises underwent rapid transformation. The changes were consistent

with the ideological emphasis of the movement on “combating bureaucratism, blunting the distinction between mental and manual labour, and encouraging mass participation in management” (Riskin, 1987: 120). The DRSULP system was maintained during the period of the movement (1958-61) as it embraced core elements of the Great Leap Forward’s approach, such as Party’s collective leadership, decentralisation and mass-line management.

The two major consequences of the DRSULP system were the growing domination by the Party, and the decentralisation of planning and decision-making (Laaksonen, 1988: 202). First, under this system the Party committee demanded primacy in important decision-making areas, including employee matters and the factory’s conformity to the central plan (Andors, 1977; Schurmann, 1968). The Party’s direct control over employees (cadres and workers alike) on matters, such as “determining appropriate labour norms” (Laaksonen, 1988: 202), indicated a concerted political stance to ensure that employees followed the Party’s and Mao’s proletarian line (Andors, 1977: 60-1). The Party’s authority in formulating the enterprise plan in areas such as production quotas showed “direct Party influence on the entire course of enterprise economic activity” (Schurmann, 1968: 292). The Party’s supremacy in both the politics and policies of enterprises resulted from the Maoist belief that the collective leadership of the Party committee could solve any problem, whether it be the co-ordination of authority and responsibility, the circumvention of bureaucratic tendencies, the implementation of mass line management, or improvement of the technical and professional abilities of Party committees’ (Andors, 1977: 59-60).

Second, decentralisation of planning and decision-making came along with the DRSULP system at “both the micro- (enterprise-) and the meso- (provincial and communal) levels of the Party” (Laaksonen, 1988: 203). As Liew (1997) has observed, there was an ongoing debate on the appropriate balance between central directive and regional initiative in the history of the PRC. “Decentralisation was the natural response to the increase in complexity in national planning brought about by the continuous increase in the number of state enterprises and range of products produced by an economy that was growing” (Liew, 1997: 56). In 1956 virtually all industry and commerce came under direct state control as a result of the completion of socialist transformation of ownership in all sectors (see Section 1.2). However, “planning and administration, in their highly centralised form, had become increasingly ineffective as the economy grew in size and complexity” (Riskin, 1987: 111). Consequently, Mao’s strategy of “administrative decentralisation” was endorsed by the State Council in late 1957 (Riskin, 1987: 104). The authority of local government encompassed all aspects except the four mandatory goals, i.e. the quantity of main products, the total number of employees including staff and workers, the total wage bill, and profits (Andors, 1977: 61). Meanwhile, the Party committee at the enterprise level also gained more power and responsibility over the operations of the enterprise, now handling quota planning, wages and incentives (Laaksonen, 1988; Riskin, 1987).

To implement Mao’s large-scale mass-oriented management, a new management model was promoted at the height of the Great Leap Forward in late 1958. This new model was called “two participation, one reform, and triple combination”, or the “Two-One-Three” management system (Lee, 1987: 62). ‘Two participation’ referred

to the participation of workers in management and of cadres in manual labour; ‘one reform’ referred to the reform of irrational rules and regulations; while ‘triple combination’ referred to technical work teams, consisting of workers, technicians, and administrative cadres to achieve “combination of leadership with the masses, labour with technique, and technical theory with production practices” (Andors, 1977: 83). The Two-One-Three system was made official by Mao in March 1960 when he endorsed this practice in a report sent by Anshan Municipal Committee (Xia, 1992: 590). This system was soon included in the five principles of the Anshan Constitution that was regarded as the constitution for industry at that time (Andors, 1977).<sup>2</sup>

The Two-One-Three system was directly contrary to Soviet industrial enterprise management, which, in Mao’s view, “used restrictive rules and regulations to subordinate workers to management” (Riskin, 1987: 162). This system, according to Lee (1987: 69), evolved “from the conflicts between ideological purity and expertise, material incentives and non-material incentives, the mass-line and professionally oriented management, and regulatory control and a mobilisation approach”. In this system, distinctions between managers and workers were erased by “making managers work and workers manage” (Schurmann, 1968: 288), and “worker-managers were elected by the teams for separate tasks and confirmed by the Party Committees at the factory level” (Andors, 1977: 82). Material incentives were severely criticised as they contradicted the political goals of socialism. The incentive policy during the Great Leap Forward was focused on political dedication to the building of socialism, and

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<sup>2</sup> The five principles of the Anshan Constitution were: (1) to keep putting politics in command; (2) to strengthen Party leadership; (3) to rely on mass movements; (4) to institute the 2-1-3 system of management; and (5) to vigorously promote technical revolution (Andors, 1977: 129).



incentive was expected to “come from feelings of solidarity, mutual co-operation, and collective improvement rather than from individual competition and monetary rewards” (Andors, 1977: 125). Subsequently, the individual bonus was abolished and the percentage of industrial workers who earned piece-rate wages dropped from 42% in 1957 to only 5% in 1960 (Lee, 1987: 56; Andors, 1977: 86). The Two-One-Three system facilitated the end of highly centralised planning as small production groups planned their own daily work schedules and operations. The task of co-ordination and control over policy, operations, and politics was thus shifted to the Party committees (Andors, 1977; Riskins, 1987).

Management under collective leadership of the Party (DRSULP system) and the Two-One-Three system both pursued the policy of concentrating leadership into the Party’s hands and dividing management among the masses (Schurmann, 1968: 293-6). However, the DRSULP system still tried to separate political goals from the economic and technical tools of modernisation, and managerial staff was still heavily involved in everyday management work. The Two-One-Three system focused more on “the politicisation of the enterprise management policy” (Lee, 1987: 60) by overemphasising the Party’s supreme control over “the whole gamut of industrialisation” (Andors, 1977: 95). With the collapse of the Great Leap Forward in 1961, Mao’s favoured approach of social mobilisation and administrative decentralisation was discredited and these two management systems were replaced to some extent by management principles stipulated in the Seventy Articles in 1962.

### **2.3.3 ‘Expert-oriented’ management – the ‘Seventy Articles’**

Early in the period of economic readjustment (1962-65), the government moved to reassert strong central control over the economy and resource allocation with regard to industry, commerce, finance, and labour. Re-centralisation of the planning system required regularisation of enterprise management, for which the Seventy Articles became the guide (Riskin, 1987: 158-9).

The adoption of the Seventy Articles was aimed to retreat from Great Leap Forward practices (Riskin, 1987), and “to negate the Great Leap Forward experiments and to return to one-man management” (Andors, 1977: 129). Although the Soviet term ‘One-Man management’ had not been used since the late 1950s due to the Sino-Soviet conflict and the subsequent Soviet withdrawal of economic and technical assistance, the management system adopted in the Seventy Articles was similar to ‘one-man management’. Schurmann (1968: 297) has observed that “industrial management returned once again early in 1961” when the central government frantically called upon the discredited managers to rescue the country from its economic crisis. The Seventy Articles emphasised an “expert-oriented management” or “professionally oriented management” system (Lee, 1987: 94), and restored the professional managers and other technical experts to the positions they had occupied before the Great Leap Forward (Breth, 1977). The return of professional management marked a shift “from Party management to profit management” as noted by Laaksonen (1988: 204). This meant the emphasis was shifted from all-out production drives to economic efficiency with profits, costs, and labour productivity representing the important factors (Li, 1964: 28).

According to Lee (1987: 85-9), the Seventy Articles provided comprehensive coverage of all major aspects of enterprise management including planning, technology, accounting and finance, labour and compensation, economic co-ordination and responsibility systems. The Articles defined the nature, objectives, and organising principles of the enterprise and its relationship with the supervising authorities and other enterprises. During the implementation of the Seventy Articles, industrial enterprises were renamed as ‘economic organisations’ rather than political organisations, and many dimensions of enterprise management became emphasised again, such as strengthening the power of the factory director to keep the state and Party separate, restoring the office of chief engineer to establish the technical management system, returning partially to the piece-rate wage and a limited bonus system, and promoting the employment of contractual and seasonal workers (Lee, 1987: 88-9). With the restoration of system and order following the re-establishment of specialised functional departments in enterprises, factory directors regained their leadership role with supervision from the Party committees, whilst direct worker participation in enterprise management declined (Riskin, 1987). The re-emergence of independent managerial authority witnessed a reduction in the role of the Party committee to such an extent “that it was confined solely to ‘political activities’” (Breth, 1977: 83).

The Seventy Articles were implemented intensively from late 1961 to 1966, even though Mao had reservations about the document and never gave his support to the articles<sup>3</sup> (Lee, 1987: 91). Profitability became a more important indicator of enterprise

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<sup>3</sup> After the Great Leap Forward, Liu Shaoqi was appointed as the State Chairman of the PRC in 1959. Then Mao Zedong voluntarily withdrew from the first line (i.e., to stay at “second front”) while Liu

performance in the early 1960s (Riskins, 1987; Schurmann, 1968). Ma Wenrui, the Minister of Labour at the time, wrote in 1964 that the most important task for management was production so as to achieve modernisation, because, he argued, once the system of ownership was changed from private to public, the principal cause of class conflict in modernising industrial society was eliminated (Andors, 1977: 136). However, adoption of the Seventy Articles and expert-oriented management and the argument for modernisation did not defeat Mao's ideological principles such as 'supremacy of the Party' and 'politics in command', because Mao and his followers never acknowledged any major mistakes made during the Great Leap Forward.

Cheng (1963) has noted that the communiqué of the 10<sup>th</sup> plenary session of the Eighth CPC Central Committee published in September 1962 only admitted that during the Great Leap Forward, "some of our work is not well done. For instance, because of the incompetence of the leading cadres, production teams, some factories and some business establishments have produced less or become unwelcome to the masses" (see Cheng, 1963: 156). Mao's leadership and ideology were still regarded as being completely correct and the 'three red banners' advocated by Mao (i.e. the general line for socialist construction, the Great Leap Forward, and the people's communes) were not explicitly challenged by anyone except a small group of Party leaders headed by Peng Dehuai (see Lee, 1987: 66-8 for details of the criticism raised by Peng and the subsequent political purge of Peng).

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Shaoqi and other CPC leaders such as Deng Xiaoping, the then Party General Secretary, and Bo Yibo, the then Vice-Premier, became the "first-front" leaders in charge of the economic readjustment (see Lee, 1987: 89-93 and 118-9).

Riskin (1987: 179) has pointed out that after the Great Leap Forward, some of the leadership strongly advocated “stability, routinisation, professionalism, and economic liberalisation; ... a shift in attention from revolutionising the relations of production to developing the forces of production”. These ideas, however, were not only rejected by Mao but also regarded as objects of ‘class struggle’ between the bureaucratic class and the working class (Lee, 1987; Riskin, 1987). Lee (1987: 115) has suggested that the struggles between the two classes or two lines in the industrial sector were actually the “two fully articulated and contradictory views of enterprise management before the Cultural Revolution”.

The Maoists advocated that ‘politics in command’ rather than economic laws were the means of increasing production, while the bureaucratic or anti-left line called for “a return to systems, order, discipline, production, and Party leadership” (Riskin, 1987: 193). Between 1963 and 1965 the Maoists launched a number of mass political propaganda campaigns such as ‘Learning the thought of Mao Zedong’ and ‘Industrial enterprises to learn from Daqing’. These ideological campaigns were aimed at “creating a personality cult of Mao and preparing the working people for uncritically and blindly following his command” (Bharadwaj, 1995: 37). The campaigns were also part of the Maoist counterattack on the trends following the Great Leap Forward. By 1964, “the Party’s leadership in the economy and in industrial enterprises was as strong as it ever was, if not stronger” (Andors, 1977: 134). Mao’s view on revolutionary industrial management was also fully developed. This included the re-emphasis of the role of politics in enterprise management and the claim that revolutionisation should precede modernisation (Andors, 1977; Lee, 1987).

As a result of Mao's ideological and political influence, there were two contradictory tendencies during the economic recovery period. One was to undermine or negate the Maoist radical methods by adopting the Seventy Articles to rationalise enterprise organisation and management; the other, to preserve some Great Leap Forward policies and practices such as the 'Two-One-Three' system (Andors, 1977; Riskin, 1987). For example, cadre (i.e. manager or other white collar employee) participation in manual labour or physical work received less emphasis with the implementation of the Seventy Articles, but was maintained and later emphasised by Maoists when Mao launched a campaign for the whole of industry to learn from the Daqing model during the period 1963-66 (Lee, 1987: 97-100; Riskin, 1987: 162-3). In 1964, cadre participation in labour was regarded as one of the keys to revolutionisation (Andors, 1977: 139). In addition, the triple combination of workers, technicians, and administrative cadres from the Two-One-Three system was continued during this period, even though the triple combination groups became "less concerned with making policy and more concerned with providing information for the policy makers as worker participation in management changed and as cadre participation in labour changed" (Andors, 1977: 120).

In early 1965, Mao requested that the Seventy Articles be revised because of the incompatibility of this document with his ideology. However, Deng Xiaoping, the Party General Secretary and Bo Yibo, the Vice-Premier, who were in charge of this revision work, tried to "keep to the original version as closely as possible" (Lee, 1987: 92). Bo Yibo stressed that the applicability of the principles of managerial work and the leadership system in the Seventy Articles meant no fundamental changes in the document would be made (Lee, 1987: 92). By late 1965 the revised Seventy Articles

were issued by Bo Yibo to key enterprises at central and local levels to solicit responses, and the new version of the document was to be implemented in 1966. However, implementation did not occur, as the Cultural Revolution was launched in May 1966 by Mao, due to “in large part the effective resistance of much of the Party and government leadership to Mao’s call for the renewal of class struggle” and his leftist ideology (Riskin, 1987: 180).

#### **2.3.4 ‘Revolution Committee’ management**

During the Cultural Revolution, the expert-oriented managerial systems were condemned for “putting too much emphasis on professional work and undue reliance upon control and supervision” (Lee, 1987: 114). The Seventy Articles were considered to be revisionist and were intensely criticised for advocating management control over workers by rules and regulations, granting control of production by technical experts regardless of their political attitudes, encouraging material incentives by restoring a bonus system, and weakening the Party’s control over enterprises (Andors, 1977: 187-91). Mao Zedong himself believed that leadership in a majority of factories “was not in the hands of genuine Marxists and the masses of workers before the Cultural Revolution. Thus, such enterprises, publicly owned though they were in form, were in reality controlled by opponents of socialism” (Riskin, 1987: 190). Maoists declared that Mao’s policies for industry - i.e. the leading role of the workers, the importance of political ideology, and the commanding role of the Party - were not followed and carried out except during the period of the Great Leap Forward (1958-61). They also claimed that industry in the PRC had been governed by bourgeois management policies, such as expert-oriented management and emphasis on profit and material

incentives, from 1949 to 1957 and from 1962 to 1966 before the Cultural Revolution started (Lee, 1987).

As the Cultural Revolution became a mass movement and spread to industrial enterprises in late 1966, the previous expert-oriented or “bourgeois technical authorities” management was replaced by so-called “rebel leaderships” composed of workers and cadres who were “directly involved in full-time production, [and were] active critics of the factory leaders” before they seized management power (Andors, 1977: 163-5). During the seizure of power in enterprises, some enterprises experimented with commune-type organisations, with leaders being elected by workers and the Party being substituted by rebel leadership (Lee, 1987).

Nevertheless, the loss of both the Party and state control inherent in the direct democracy of the ‘commune’ model was too much for Mao, who opted instead for the establishment of revolutionary committees consisting of a triple alliance of rebel workers, military representatives, and ‘revolutionary cadres’ (Andors, 1977; Riskin, 1987). The reason for bringing military representatives (i.e., officers and soldiers from the People’s Liberation Army [PLA]) into the management team was because “during ideological turmoil the PLA became a source of administrative coherence and symbolic legitimacy” (Andors, 1977: 172) and played the role of a political broker between the rival factions within industrial enterprises to restore order and keep enterprises in operation. In 1969, the Party’s leadership was restored and became the nucleus of the revolutionary committee (Andors, 1977).



The establishment of revolutionary committees proceeded unevenly from early 1967 to mid- 1968. Revolutionary committees at enterprises were characterised by a “charisma-inspired, mass-oriented style of industrial management” (Lee, 1987: 97). Large numbers of workers were appointed to the committees and took on managerial positions at the factory level (Andors, 1977). However, many committee members “were not sufficiently competent and experienced to handle day-to-day managerial functions” (Lee, 1987: 113), because their selection had been based only on their political background. Many workers appointed to the committees did not have previous management experience (Andors, 1977). Laaksonen (1988) has also observed that the selection of new managers was based more on ideological suitability than appropriate qualifications or experience.

Revolutionary committees at all levels were required to “practice unified leadership, eliminate overlapping jurisdictions, streamline organisational structure, and maintain closer ties with the masses” (Lee, 1987: 113). Ideological education preceded other operational duties, because Maoists claimed that “politics and production were to be inseparable. Politics was to be applied to production, shaping human relationships, defining purposes, and providing incentives for hard work” (Andors, 1977: 224).

The other major responsibilities of the revolutionary committees included technical and financial control, compensation and incentives, macro-management and economic integration (Andors, 1977: 216-24). The technical and financial control in many enterprises was exercised by the triple combination of administrators, technical persons (e.g., technician or accountant) and shop-floor workers, a grouping inherited from the Two-One-Three system. This management practice witnessed a greater

decentralisation of control functions to the production units and participation both up and down the line, i.e. worker participation in management and cadre participation in labour. The political motive behind the practice, as pointed out by Laaksonen (1988: 222), was to “avoid creating a new elite or social class” and to reflect the Maoist emphasis on “the participation of the masses”. Nevertheless, many human resource practices, such as wage scales and welfare distribution, underwent little change except the abolition of all material incentives including bonus and piece wages (Harding, 1987; Riskin, 1975).

As for macro-management and economic integration, there were two major features according to Andors (1977: 222) - despecialisation and decentralisation. Despecialisation resulted from Mao's emphasis on self-reliance, which aimed to allow each locality, region, or enterprise to rely on its own resources for development (see Riskin, 1987: Chapter 9). It encouraged enterprises to become comprehensive units that made maximal use of the materials and intermediate goods needed to achieve its main production line. As a result, enterprises were often either ‘small but complete’ or ‘large and complete’. According to a “Country Study” conducted by the World Bank in China in 1983, nearly all enterprises visited had built a significant proportion of their equipment for themselves. A textile factory, for example, had a foundry and a forge for making spare parts, and extensive, well-equipped machine shops that could repair even their own maintenance machines (World Bank, 1983: 161). The pursuit of such ‘completeness’ or self-reliance resulted in the ‘community’ or ‘miniature society’ type of industrial enterprises that were characterised by overstaffing and low efficiency (Harding, 1987; Laaksonen, 1988; Riskin, 1987). The decentralisation during the Cultural Revolution was combined with various administrative and governmental

levels of economic despecialisation. This meant a multi-layer system of relatively more independent localities and enterprises was created than would be usual in a vertically integrated economy.

The efficiency of the revolutionary committee management system was challenged in the policy papers drafted by the State Planning Commission in 1972 when Mao endorsed the ex-Premier Zhou Enlai for carrying out national economic tasks.<sup>4</sup> The policy papers listed deficiencies in the enterprise leadership system (i.e., the revolutionary committees) as one of the main problems to be remedied (Lee, 1987: 118). The problems in industrial management were also addressed in a policy paper by Deng Xiaoping in 1975 when he became Acting Premier. The paper was entitled 'Twenty Points' (or 'Certain Questions on Accelerating the Development of Industry', see Section 2.2.3) and was regarded as a reprint of the discredited Seventy Articles. It focused on management at the enterprise level, emphasising the management needs including the need for regulations and systems, the need to strengthen enterprise leadership and improve employee motivation (Lee, 1987: 125-9). However, the revolutionary committee management with its focus on politics and Mao's ideology was maintained until an initial reform in enterprises started and the factory-director-responsibility system was introduced in mid-1977 after the fall of the 'gang of four' and Deng Xiaoping's return to power.

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<sup>4</sup> Mao's support for economic development was endorsed after the Lin Biao incident. Lin Biao officially became Mao's successor in 1969 but was killed when he fled to the Soviet Union in September 1971 after an abortive coup against Mao (Harding, 1987:51; Lee, 1987:115-18).

## 2.4 Summary

This chapter has examined how the command economy was formed and developed as a result of adopting the Maoist model. Under this highly centralised planned economy and state dominant ownership structure, management practices possessed distinct features that could be generally described by Naughton's (1996: 57) analogue, "the bird in the cage", or Lin et al.'s (1996: 51) terminology, "puppet-like" enterprise management. This is because regardless of whether managers were given autonomy for their operations as in the 'one-man' management practices or deprived of such autonomy as in the Cultural Revolution, they were constantly confined by a centralised command economic system. Under this system, the state "set the norms of economic activities to be followed by enterprises" (Hsu, 1991: 76), that is:

... all required factors of production were allocated to enterprises by the state, all their products were submitted to the state, all their production costs were settled by the state, and all their profits were remitted to the state. There was no link between the expansion of an enterprise and its economic efficiency, or between its workers' income and their contribution (Lin et al., 1996: 61).

The system imposed a highly restrictive and rigid set of constraints over the behaviour of managers, and deprived them of any authority "to shape the enterprise into a unique or idiosyncratic organisation to match the output, market, or personality of that unit" (Naughton, 1996: 107). In addition, the Party was the ultimate arbiter of important decisions due to the supremacy of the Party and politics (Naughton, 1996). All these factors ultimately deprived managers of their autonomy and resulted in a 'puppet-like' or 'birds-in-the-cage' management style.

## **CHAPTER 3**

### **ECONOMIC REFORM FROM 1979 AND ITS IMPACT ON MANAGEMENT PRACTICES**

#### **3.1 Chapter Objectives**

This chapter has two objectives, the first is to examine the economic reform and the second to analyse its impact on management in general. The second section of this chapter examines the transition of the economic system and changes in ownership structure. It reveals fundamental changes in the micro- and macro-aspects of the traditional economic system, emergence of a mixed ownership structure and its implications for enterprise management. The following section reviews changes in the government regulation of HR practices in industrial enterprises. This analysis aims to show how the monopoly of power within government agencies at different levels is being dismantled by granting substantial autonomy to enterprises in terms of staffing and compensation. In the last section, the impact of reforms upon management practices is discussed, with different management systems being examined.

#### **3.2 Transition of the Economic System and Changes in Ownership Structure**

In the first two years of the post-Mao era (1977-78), the Party and government concentrated their efforts on rehabilitating and developing the seriously damaged national economy after the chaos of the Cultural Revolution. The strategy adopted by the Chairman, Hua Guofeng (who was the Party Chairman from 1976 to 1981 and Premier

from 1976 to 1980), was to restore “great order across the land” so as to promote faster economic modernisation and greater political stability (Harding, 1987: 54). However, “Hua tried to prove himself a worthy successor to Mao by draping himself in the mantle of Maoist tradition” (Shirk, 1993: 35). He maintained Mao’s doctrines as the ruling ideology, and advocated the policy of ‘two whatevers’ (*liang-ge fan-shi*). This policy declared that whatever decision made by Chairman Mao must be supported and whatever instructions given by Chairman Mao must be unswervingly followed (Bharadwaj, 1995: 56-60; Harding, 1987: 53-7).

This policy was challenged in 1978 by a national debate on the criterion for verifying truth (Talas, 1991). The debate was endorsed by Deng Xiaoping and his allies, “rallying under the slogan of ‘practice as the sole criterion of truth’” (White, 1993: 29) and “seeking truth from facts” (Harding, 1987: 60). Deng’s ‘black and white cat’ theory<sup>5</sup> was also widely used to support the debate, which gradually led to the “liberation of thought” (Talas, 1991: 67). Reformers led by Deng started to question the Maoist development strategy and argued for a more pragmatic approach to policy-making as well as supporting more sweeping economic reforms than Hua was advocating (see Harding, 1987: 57-66).

The Maoist development strategy (i.e., big push or heavy industry-oriented strategy) had been critically reviewed since the late 1970s. It was reported that between 1949 and 1978, the gross output value of heavy industry increased 90.6 times, whereas that of light

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<sup>5</sup> This refers to Deng’s famous statement of pragmatism over ideology: ‘it doesn’t matter if the cat is black or white as long as it catches mice’. In other words one should be pragmatic in one’s choice of economic policies. Their suitability should be judged by whether they were successful in achieving economic growth and national prosperity (Nolan, 1995: 172).

industry and agriculture increased by only 19.8 and 2.4 times respectively (Dong, 1980: 727). Dong has further noted that heavy industry was developed mainly to serve the needs of heavy industry itself, rather than to serve the needs of technical transformation of agriculture or the development of light industry. The Maoist strategy failed to achieve its targets over a period of three decades. Evidence of its failure could be observed in the late 1970s in terms of technological backwardness, pervasive economic inefficiency, critical shortage of daily necessities, low income level of the urban population, persistent poverty of millions of peasants, and a huge gap in the economic development between China and its newly industrialised neighbouring countries (Lin et al., 1996; White, 1993).

The breakthrough or the actual turning point in China's economic and political strategy occurred at the Third Plenary of the 11<sup>th</sup> Central Committee in late 1978. The plenary officially "declared that the era of turbulent class struggles was over, and turned the focus of party work to economic development" (Riskin, 1987: 284). Since China embarked on its economic reforms, the economic system has been under continuous transition. To understand this process, various researchers have tried to identify different stages of the reform in a chronological sequence (e.g., Ishihara, 1993; Talas, 1991; Shirk, 1993). However, it is difficult to pinpoint distinct stages in this process, as China's reforms proceeded similar to 'crossing the river by touching under-water stones on the way' - this means experimentation of a new system was always carried out on a small scale, as a pilot program, before being gradually introduced to the whole nation (Nolan, 1995: 169). To avoid problems regarding chronology, the reform process will be examined from three aspects based closely on Lin et al.'s model of the pre-reform economic system (1996: 125-67). The model had three principal features - puppet-like micro-management; the resource allocation system under central planning; and distorted

macro-policy environment (Lin et al., 1996: 50-8). These features became the primary targets for reform. It should be emphasised that these three aspects of reform are not exclusive of each other and might be carried out simultaneously. The reform of these areas also witnessed a sea change in the ownership structure in China's industrial sector. Therefore, there are four aspects to reform, i.e., micro-management, resource allocation, macro-policy environment and ownership structure, which are examined respectively in the following sections.

### **3.2.1 Reform at the micro-management level**

The starting point of the reform in late 1978 was to change micro-management in both rural and urban areas in order to improve the incentive mechanism (Lin et al., 1996; Tung, 1982). The reform was initiated in rural areas, where the traditional practice of “collective farming” (Lin et al., 1996: 126) and the state monopoly for “unified purchasing and selling” (*tonggou tongxiao*) (Cheng, 1963: 93; Ishihara, 1993: 48) was eventually replaced by the household responsibility system. This system was introduced in the late 1970s and became rapidly adopted nation-wide. While in 1979 only 1% of rural households participated in this system, by 1984, participation was close to 100% (see Lin, 1992: 38). The household responsibility system enabled farmers to claim residuals after submitting the required amount of money or farm produce to the state and the collective. This method of income distribution permitted more correlation between labour efforts and rewards, providing greater motivation for farmers to work (Lin et al., 1996).

Following the reform in rural areas, the traditional practice of “unified receipts and allocation by the state” (*tongshou tongzhi*) in the urban industrial enterprises (Jackson,



1992: 85) was also replaced by new systems. Under traditional practice, the state centralised all earnings and expenditures of state-owned enterprises, so profits would be entirely channelled to the central government, while enterprise funding and losses incurred would also be covered by the state. This practice robbed enterprise managers and workers of any incentive for efficient or profitable production. Thus the path to economic modernisation was to “improve enterprise motivation, and the key to motivation was to give the enterprise a profit incentive” (Shirk, 1993: 199).

In order to increase enterprise autonomy and profit sharing, five major types of profit sharing systems have been experimented with since late 1978 (Chai & Docwra, 1997: 162). These included the enterprise fund system (late 1978-79); the profit retention system (1979-81); the profit contract system (1981-83); the tax-for-profit system (1983-87); and the contract responsibility system (1987-94). Since 1994, the modern enterprise system was introduced to enhance reforms at the micro-management level. The key to these series of experiments was the right of enterprises to retain and utilise part of their profits. This was also called *fangquan rangli* in Chinese (decentralising power and conceding material benefits) (Lo, 1997: 59). The profit retention and profit contract systems initiated profit sharing arrangements and formed a core component in *fangquan rangli*. The major functions and application of these two systems and their drawbacks are briefly discussed below.

The profit retention system allowed enterprises to retain a certain percentage of its planned profit after fulfilling four rather than eight mandatory state targets (i.e. quantity; variety; quality; and profits - the four abolished targets were consumption of raw materials and energy; wage fund; costs of production; and working capital). The amount

retained from the planned profit was different from the above-plan profit. The planned profit was negotiated between the enterprise and higher authorities, whereas retention from the above-plan profit was fixed by the central government (usually 10 to 30%) and varied according to the type of industry (Byrd, 1992: 3; Jackson, 1992: 92). The retention rate of profit by enterprises usually remained unchanged for three years (Fan, 1994: 140). From the profits retained, the enterprise established funds for production development, collective welfare and employee bonuses. The profit contract system was also a form of profit sharing, but it was different from profit retention. As Jackson (1992) notes, “the terms of profit retention were based on the firm’s past performance whereas profit contracting was determined by an estimate of the firm’s capability to earn profits in the duration of the contract” (p. 94).

The profit retention system was tested in 100 state enterprises in Sichuan province in late 1978. It was then extended to 6,600 enterprises by the central government in late 1980. These enterprises accounted for 16 percent of the total number of state enterprises, but produced 60% of the total industrial output in China, and earned 70% of the total profits of state enterprises (Byrd, 1992: 3; Tung, 1982: 268). The number of industrial enterprises undergoing the test increased to 8,000 in September 1981. However, the profit retention system was gradually replaced by the profit contract system that was introduced in 1980. By 1983 nearly all the state and collective enterprises had adopted the profit contract system with varying degrees of enhanced decision-making power (Jackson, 1992: 88-94; Lin et al., 1996: 138-9).

The two profit sharing systems, to a certain degree, increased autonomy of enterprises and stimulated enthusiasm of managers and workers to enhance economic efficiency

(Lin et al., 1996). However, researchers have identified various practical problems with the new systems (Byrd, 1992; Hay et al., 1994; Jackson, 1992; Lo, 1997; Naughton, 1996). First, there were “ratchet effects” when using historical data to fix targets (Byrd, 1992: 3; Naughton, 1996: 213), whereby good performance in one year could be penalised by higher targets for planned profits in subsequent years. On the other hand, enterprises that improved their performance this year could get lower rates for profit retention based on the previous year’s poor records (Jackson, 1992: 98). Second, it was difficult to set a rational rate for profit retention because the planned price system made profit a highly dubious indicator of enterprise efficiency (Fan, 1994; Lockett & Litter, 1983). Lin et al. (1996: 139) has commented that “the financial situation of the state enterprises could not fully reflect how well they were run” given that the whole price system was distorted.

Third, the *ad hoc* nature of target-setting and the scope for bargaining greatly weakened the supposedly strong incentive effects (Byrd, 1992; Hay et al., 1994; Lockett & Litter, 1983). When enterprises made more profits, they could retain more; when they made less, they could negotiate with their supervisory bureau and asked for adjustments in their profit targets; and when they made losses, they could rely on the state’s subsidies (Jackson, 1992). Obviously, there was “little emphasis on the [enterprise] obligation to fulfil profit targets, and almost no penalty for failure to deliver the profit quota” (Hay et al., 1994: 24). Moreover, the “soft and negotiable” nature of such systems apparently led to an effluence of government revenue (Byrd, 1992: 5). It was reported that state revenue from industrial profits dropped to 39.86 billion yuan in 1983 from 41.59 billion yuan in 1979 (Statistical Yearbook of China, 1984: 418).

The state's initial intention for loosening its controls over the economy was to build a market regulatory mechanism. However, as Lo (1997: 59) has observed, this "market mechanism" was far different from the Western style market, because it was largely based on "widespread practices of negotiation, consensus, compromise, administrative intervention, etc." Because of these drawbacks, a tax-for-profit or enterprise taxation system was introduced in January 1983 and implemented in June of the same year. The taxation system tried to distinguish between profits and taxes, with the intention to "force enterprises to pay taxes, to expose enterprise losses, and to clearly assign responsibility for performance to the enterprises" (Yabuki, 1995: 115). The tax system was also aimed at "eliminating bargaining over profit remittance, and making enterprises more accountable for both profits and losses" (Hay et al., 1994: 25). It was the first time in the history of the PRC that taxation was used "as an economic lever in regulating production, incomes and consumption" (Jackson, 1992: 102).

According to the reform plan, the tax system would take two steps (Chen, D.R. 1995: 62; Zhou, X. 1995: 149). First, small enterprises were required to pay an eight-grade progressive income tax, while large and medium enterprises had to hand over 55% of their profits as tax and shared the rest of the profits with the government proportionally. The proportional rate would depend on the individually negotiated profit-sharing scheme. Second, a normal income tax system was instituted, with a fixed rate. Although the second step was implemented in 1984, it was difficult to fix a tax rate due to the distorted pricing system (dual-track prices, to be discussed in a later section) (Shirk, 1993).

Since 1986 variations of the contract responsibility system have been introduced to enhance the operation of the enterprise taxation system (Jackson, 1992). They provided a tight structure for profit delivery, and more clearly identified separate rights of the state and of the management. In contrast, the tax-for-profit system only specified the distribution of profits between the state and enterprises (Hay et al., 1994). However, enterprises suffered problems such as ‘rent-seeking’ and short-sighted behaviours (to be discussed in a later section). In January 1994 the central government introduced its most comprehensive tax reform since 1949 (Liew, 1997; Wong, Heady & Woo, 1995). The new tax system had more rules and less discretion, and eliminated “the pro-cyclical nature of the fixed profit or tax delivery contract model” (Liew, 1997: 119). It tried to create a “level playing field” by setting enterprise income tax at 33% for all ownership forms above a moderate size (smaller enterprises fell into 18-27% brackets) (Naughton, 1996: 293-4). The new tax system also introduced a value-added tax rate of 17% for most products and a sales tax of 3-5% on services.

Since the implementation of the new tax system in 1994, reform has been centred on establishing a modern enterprise system through corporatisation or shareholding. The objective of reform at the micro-management level was no longer to only provide incentives for improving efficiency but also to increase the market competitiveness of enterprises. However, these objectives would not be achieved without reforms in other areas, such as the resource allocation system under central planning.

### **3.2.2 Reforms of resource allocation system under central planning**

As a result of reform at the micro-management level, enterprises were granted much greater autonomy in production mix, production level, labour compensation, investment,

and use of retained profits (Wong et al., 1995). Meanwhile, the central planners were “making a generally credible commitment to freeze the size of the traditional plan”, with the intention to increase the share of non-plan and market transactions in the economy (Naughton, 1996: 9). However, Tung (1982: 263) has noted that “the efficiency of an enterprise is largely determined by the firm’s method of acquisition of raw materials and resources as inputs for production”. Under the planned economy, enterprises were run solely by administrative means such as mandatory planning while market forces were totally ignored in the allocation and acquisition of raw materials and the distribution of output. Even with reforms, only a limited number of enterprises were allowed to sell their above quota products freely prior to 1984 because of the limitations of the resource-allocation system under central planning (Wong et al., 1995). The traditional resource-allocation system caused a bottleneck for enterprises wanting to use retained profits to purchase inputs outside of their planned allocation (Lin et al., 1996).

The reform in the resource-allocation system was facilitated by the adoption of the ‘Decision on Reforming the Economic System’ (The Decision) by the Third Plenary of the 12<sup>th</sup> Central Committee of the CPC in October 1984. The Decision focused on the marketisation of the Chinese economy, with the intention of reducing the planners’ direct control over the economy while increasing the scope of their indirect control through guidance planning, and encouraging the spread of markets and market transactions (Dernberger, 1997). As a consequence, the role of directive planning in resource allocation was reduced, while the share of market mechanism was expanded (Byrd, 1992). As material, capital and human resources are indispensable to the formation of effective production capacity (Lin et al., 1996), reform of the old resource-allocation system dealt with these three resources. This section focuses on reforms in

material management, briefly discussing reforms in the financial sector and leaving human resource reforms to the next section (see Section 3.3.2).

Under the planned economy, all industrial materials and equipment were classified into three categories (Ishihara, 1993: 43). The first category, including coal, pig iron, rolled steel, heavy oil, automobiles, power machines etc., was under unified central planning. The second consisted of mineral ores, industrial fuels, trucks, spinning machines and so on, and these were controlled by the ministries of industry of the central government. The third category had over 10,000 goods such as metal utensils, vehicle parts and electrical equipment, which were managed locally. Government planning agencies determined the outputs that could be delivered by enterprises and the inputs that had to be provided to achieve these outputs. Enterprises thus sought a low production but a high input quota (Liew, 1997: 60). If an enterprise required above-plan material input for business expansion or collective welfare, the enterprise manager had to apply for approval and allocation from higher authorities (Xue, 1982).

In the early stage of the material management reform (1979-84), the government tried to relax its control over planned materials to grant enterprise autonomy and the right to retain part of their profits. To this end, four principal methods were employed as noted by Lin et al. (1996: 147-8). First, the right of enterprises to sell their products was increased. Once enterprises fulfilled the state's plans and their supply contracts, they were allowed to market a given proportion of their output. Second, some of the plan-allocated goods were made available for orders by enterprises. For example, from 1980 only 7 of the 83 kinds of non-ferrous metals remained allocated by the unified plans while the rest became available for order. Third, a flexible means of supply was

introduced. Supply could be based on state plans, the enterprise's needs and the state's approval, contracts or coupons. Finally, production material markets were established initially in the government bureaux in charge of production materials. These markets greatly increased the mobility of resources as trading activities were not restricted by area, sector or ownership type. The final method was to reduce the opportunity costs of resource mobility by developing a network of material management and distribution centres at different levels.

After 1984 the scope of mandatory planning was reduced, and the state's relaxation of control over material supply gathered pace alongside the acceleration of price reform. The emphasis of the reform was on reducing the types, quantities and scope of plan-allocated materials and establishing production material markets of various forms and sizes (Lin et al., 1996). It was reported that from 1980 to 1988, the number of goods and materials distributed by the state (i.e. those belonging to category one) fell from 256 to 27; the number of materials under the second category (i.e., those managed by various ministries of the State Council) was reduced from 316 to 45 (Lin et al., 1996: 148; Minami, 1994: 20). Similarly, the number of key industrial products subject to mandatory planning was cut from 120 to 60 by the end of 1986, and was further reduced to only about 20 by the late 1980s (Nolan, 1995: 202).

Despite the enormous reduction in the scope of material supply allocations and liberalisation of prices, the mandatory planning of input supply had not completely ceased. In practice, some key industrial sectors still received a high proportion of inputs through the material balance planning system (Nolan, 1995). For example, the state allocated 86% of its total steel supplies to Guangzhou Shipyard in 1990, 59% in 1992,



and about 36% in 1993. Similarly, in 1992 Shanghai petrochemicals still received 97% of its crude oil allocation directly from the state at prices substantially below world market prices (Nolan, 1995: 203). These examples indicated that with the existence of a dual-track pricing system, the resource-allocation system could not be fully marketised. However, this problem began to be alleviated following the adoption of the 'Decision on Issues Concerning the Establishment of a Socialist Market Structure' by the Party Central Committee in 1993. This Decision emphasised the role of the market by declaring that the market would "play the fundamental role in resource allocations under macro-economic control by the state", and the dual-track price system for capital goods would be abolished as soon as possible (Liew, 1997: 85).

With the reform of the resource allocation system, enterprises had access to industrial inputs in the market, and this stimulated their need for financial resources. Reform of the financial sector started in 1984 with an initial focus on the banking system (Lin et al., 1996). Before the reforms, China had adopted a single, consolidated financial system with only one existing bank, The People's Bank of China. Thus the financial reform aimed to establish and then adjust a financial system consisting of banks and non-bank institutions, led by the People's Bank of China and supported by other specialised banks (Talas, 1991). According to Lin and colleagues. (1996), the reform also aimed to promote the corporatisation of banks, to develop financial markets and to establish and perfect the financial system for macro adjustment. Lin and colleagues (1996) have argued that under the old system, all deposits were submitted to the state, all loans were approved by the state, and all profits were remitted to the state. The salary of bank employees was not related to deposits, loans, or profit of the bank. With corportisation,

the banking system would have horizontal competition plus vertical supervision, and thus provide the bank with an incentive to work efficiently.

Statistical data show that loans issued by banks reached 3,160.3 billion yuan in 1994, 16 times more than the 1978 figure; and the dependence on bank credit for economic growth increased from 52% in 1979 to 93.1% in 1994 (Lin et al., 1996: 153). The data indicates a declining dependence of enterprises on the budgetary appropriation for fixed asset investment, but an increase of their dependence on banks and their loans. Ishihara (1993: 86-7) points out that the shift of investment emphasis from fiscal outlays to bank loans represents a shift from non-redeemable grants to repayable interest-bearing loans, which would help raise the operational efficiency of funds. As banks had become more concerned with efficiency than the government was, the change in loan source induced enterprises to exploit the comparative advantage of the economy in their investment decisions (Lin et al., 1996).

Nevertheless, the financial reform still needed to address some inherent problems or legacies retained from the old system. For example, using interest policies as a means of control had definite limitations, as the interest rate on financial assets was not related to the risk involved (Ishihara, 1993; Lin et al. 1996). The major reason for this, as explained by Lin and colleagues (1996) was that under the present system, the risk level of various kinds of financial assets was difficult to ascertain, thus the interest rate became the only determining factor that financial institutions could use to attract financial assets. Another problem in the financial system was caused by the institutional structure of banks (Ishihara, 1993; Wong et al., 1995). Since 1976, local bank branches had been subjected to dual control exercised by both the head office and the local government, with the local

governments having a stronger say in the day-to-day operation of the bank. As local governments were usually more interested in promoting local development, their influence over the banking system might allow them to put pressure on a branch bank. The bank might then be reluctant to implement a tight credit policy as required by the head office. To overcome these problems, three policy banks were established in 1994 to specialise in policy loans. The government also proposed to commercialise the four existing banks to extend the reforms in financial management (Lin et al., 1996).

### **3.2.3 Reforms in the macro-policy environment**

Reform of the macro-policy environment, in a broad sense, referred to the price reform. It included prices in five major areas: the prices of production inputs (raw materials, intermediate input, and energy), products (final products and services), capital (the interest rate), foreign currency (the exchange rate), and labour (wages) (Lin et al., 1996: 159-66). Reforms in the micro-management institution and resource-allocation system could not be sustained without a price reform. This has been indicated in the previous two sections, such as difficulties in establishing a rational profit quota in the absence of a free market for resource purchasing, and the constraint of a dual-track price policy on the marketisation of resource allocation. This section examines price reform in general with a focus on the input and product price policy given their close relevance to this study. The reform of labour price (wages) will be discussed in Section 3.3.3.

Price reform was regarded as “the key to the reform of the entire economic structure” by the Third Plenary of the 12<sup>th</sup> Central Committee of the CPC in 1984, because “the existing administratively set prices were like a ‘funny mirror’ that distorted reality and sent economic decision-makers perverse signals” (Shirk, 1993: 299). Under the

command economy, most prices were determined by the state, with the prices of agricultural commodities and raw materials set at a low level while prices of manufactured products at a high level. Goods produced by the raw materials and energy sectors thus earned lower prices than those produced by the manufacturing sector (Ishihara, 1993; Shirk, 1993). Therefore, domestic prices failed to reflect the value of social input, or market supply and demand, hindering the establishment of an efficiently functioning economic system. Profits, for example, were neither a good indicator of enterprise performance nor a reliable base for government taxation under the old system (Gao, 1987; Talas, 1991; Wong, 1993).

Furthermore, as a consequence of the expansion of enterprise autonomy and more market-oriented resource allocation, the scope of outside-plan transactions had been increasing steadily since the early 1980s. By late 1984, as observed by Naughton (1986), government officials openly admitted that they could not control outside-plan prices, and were preparing to move to full market pricing outside the plan. Accordingly, after 1984, the government turned its attention to price reform. In 1985 enterprises were formally given the right to sell above-quota output at market prices, and the dual-track system was fully in place and given clear legitimacy for the first time (Naughton, 1996).

Economists in China argued that there were two key issues in the price reform, first, whether to free prices and allow them to float according to the market or to adjust them administratively, and, second, whether to change prices in one giant step or in a series of small steps (Shirk, 1993: 299). As researchers have observed (Gao 1987; Shirk 1993; Talas 1991), China selected the latter options for both - centrally administrated and slow paced price reform. Specifically, the reform adopted a combination of “relaxation and

readjustment” of prices according to Gao (1987: 140-1). Firstly, the state relaxed the prices of certain commodities, allowing market regulation and negotiations between buyers and sellers. Secondly, the government gradually implemented state unified price readjustments for some commodities to match their prices more closely to the market. By 1985 four price categories had emerged. The first was planned or state-fixed price, determined by the state price authorities and applied to materials and services covered by the mandatory state plan. The second was floating price with upper and lower limits set by the state. The third was negotiated price, set through negotiations between local and provincial governments and the producers. The last was free-market price, applicable to manufactured goods not covered by state plans and sold on the free markets, thus subject to the market value judgement (Mackerras, Taneja & Young, 1994: 84-5; Talas, 1991: 297).

The dual-track or multiple price system was a partial approach to price reform but also a pragmatic strategy to reduce inflation, social reverberations (Gao, 1987), and bureaucratic conflicts between reformists and conservatives (see Shirk 1993: 280-300 for detail). The new system came to reflect the relationship between market demand and supply more directly than the single fixed price system, and sent some market signals to enterprises (Mackerras et al., 1995; Shirk, 1993; Wong, 1993). However, under this system, as observed by Wood (1994), there were centrally or locally specified output and input quotas, within which sales and purchases were conducted at controlled low prices. Above these quotas, and for enterprises that did not have quotas, outputs and inputs of these goods were allowed to be freely traded at market prices. The gap between the official and market price was often significant. For example, in 1988 the official prices for thin steel plate and aluminium were 870 yuan and 4,000 yuan per ton respectively,

whereas the market prices were 4,602 yuan and 16,077 yuan respectively (Wood, 1994: 25-7). This huge gap provided a strong incentive for enterprises to engage in various sorts of malpractice, including rent-seeking activities<sup>6</sup>, diverting goods from planned to market channels, and corruption by managers who manipulated the dual-track price system to create 'profits' for themselves (Putterman, 1992: 478; Wong, 1993: 31).

Thus, from 1988 the government put more effort into the price reform, with a view to phasing out the dual-track price system. In the 'Regulations on Transforming the Management Mechanism of State Industrial Enterprises' issued by the State Council in January 1992, enterprises were legally entitled to have more autonomy in their business operations, such as setting their own output prices (Naughton, 1996: 294). In 1993, the Party Central Committee issued the Decision on the Establishment of a Socialist Market Structure, which urged the immediate abolishment of the dual-track price system and further lifting of price control (Liew, 1997: 85). According to Wong (1993: 31-2), a small portion of important industrial raw materials previously under state price control were released to the market in 1991, and by 1992 only 89 of the original 737 commodities remained under state control with a further 21 to be controlled by local governments.

Since 1993, prices for key inputs such as coal and steel products were gradually deregulated by the government. For example, the prices of all petroleum products were deregulated at the end of 1993, and price controls on coal were fully eliminated at the

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<sup>6</sup> If an enterprise can obtain its input material at the plan price (usually lower than the market price) and sell its output at the market price, the profit deprived in this way is called "institutional rent" (Lin et al., 1996: 203-8).

end of 1995 (Naughton, 1996: 290-1). Lin et al. (1996: 160) further reported that by 1993, products with market-determined prices accounted for 95% of the total value of retail commodities in the economy, and 85% of the total sales of production material. In the industrial sector, products still under plan prices accounted for only 5% of the total products, a drop from 70% in 1979.

As prices became decentralised, the market increasingly influenced production and management policies in enterprises, and “striving for economic efficiency became an integral part of an enterprise’s action” (Lin et al., 1996: 161). When state enterprises began to lose their comparative advantage from having access to planned inputs with low prices, they were also facing increasing competition from non-state enterprises that gained a more competitive edge on the market. The next section explores the reform of ownership structure and the subsequent emergence of a mixed economy.

#### **3.2.4 Reforms in ownership structure**

Ownership reform, one of two major aspects of the Chinese economic reform, aimed to reform both the existing ownership structure and state ownership itself (Dong, 1992: v). This section is focused on the first aim, leaving the second to be discussed in the chapter on state-owned enterprises (Chapter 6). The discussion on the reform of existing ownership structure includes a brief review of the pre-reform ownership structure, the rationale for the ownership reform, the emergence of mixed ownership structure and its implications for enterprise management.

From 1949 to 1978, China experienced socialist transformation, establishment and consolidation of socialist ownership as discussed in Chapter 2. As a result, China’s

economy was basically dominated by two forms of socialist ownership on the eve of reform: state ownership by the whole people as in all state-owned enterprises, and collective ownership by the working people as in many small and medium sized enterprises and the rural people's communes (Wu, Y. 1996: 30). In 1978, the state and collective sectors represented 98-99% of the gross social product, gross national product, and national income of China, while the individual and private sectors were a mere 1-2% (Talas, 1991: 331).

Under Mao's reign, business in the non-state sector was officially criticised as "seeds of capitalism" (Shirk, 1993: 42). This could be attributed to the misconception entrenched in the minds of Maoists, that public ownership was always superior to other types of ownership, while the private sector of the economy could only breed capitalism and had to be eliminated (Dong, 1982). In addition, economists have argued that without nationalisation of industry in the early 1950s, it would have been impossible to implement the heavy industry-oriented development strategy (Lin et al., 1996). According to Lin and his colleagues (1996), only when private enterprises were nationalised and state-owned enterprises became dominant in the industry structure, could the government practice direct planned management of the economy to pursue its capital-intensive strategy in a capital-scarce environment. For example, with state ownership, price and wage controls were relatively easy to enforce because no private party had a vested interest that could lead to objections (Cheung, 1990). Consequently, in the 1950s and 1960s "there was forced expansion of the form of whole people's ownership, regardless of the costs" (Talas, 1991: 341). By the end of 1978, there were only 259 self-employed individual labourers (who were engaged in the private business)



in Beijing and 140,000 in total in all the urban areas of China (Dong, 1982: 127; Wang, 1994: 125).

Under the monopoly of state ownership, many problems occurred such as low efficiency and over-staffing of enterprises, short supplies of daily necessities and slow commodity circulation (Wu, Y. 1996). Dong (1982) also noted that many functions of the private sector could not be replaced by either the ownership of the whole people or by collective ownership. To develop an effective market system and create genuine competition to improve efficiency, the reform of ownership structure became indispensable. The reform of the ownership system was started in the late 1970s in rural areas, where households became production units, which significantly enhanced production incentives and speeded up the release of resources to other sectors (Putterman, 1996). It was not until 1986 that it “became obvious that the key to success of economic and political reform was a deep and radical reform of the ownership system” (Talas, 1991: 330). The monopoly status of the state sector was undermined by allowing collective and private enterprises and those supported by foreign investment to enter many industries, especially the manufacturing and tertiary industries. The government actively encouraged these enterprises, in order to provide more job opportunities, improve the tertiary industry and encourage the development of commercial activities (Shirk, 1993; Wong et al., 1995).

These different forms of ownership were granted legal status in 1988 with a constitutional amendment and were supported by government policies such as low tax rates, the retention of all profits, and no restrictions on employee salaries (Shirk 1993; Wong et al., 1995). Although these enterprises usually had higher production costs

because they operated outside a plan and had to buy more of their inputs on the market, many of them still had a competitive advantage over state enterprises in that they could meet market demand (Shirk, 1993). They soon flourished and it was reported that by the end of 1991, there were 1.84 million people working in such private-owned enterprises<sup>7</sup> (Wang, 1994: 133). The ownership structure of production has changed immensely during the reforms. Table 3-1 shows these changes. From Table 3-1 it can be seen that enterprises with private and other types of ownership rose significantly from 0.02% and 0.48% in 1980 to 11.51% and 13.55% respectively in 1994. Meanwhile, state-owned enterprises (SOEs) declined steadily from 75.97% in 1980 to 34.07% in 1994 (the 1994 figure for SOEs could be 40.05% if the output share of Others where SOEs have majority shareholding was calculated, see Lo, 1997: 4).

**Table 3-1 Shares of gross value of industrial output by ownership sectors, 1980-94**

Year	SOEs <sup>a</sup> (%)	COEs <sup>b</sup> (%)	POEs <sup>c</sup> (%)	Others <sup>d</sup> (%)
1980	75.97	23.54	0.02	0.48
1985	64.86	32.08	1.85	1.21
1988	56.80	36.15	4.34	2.72
1990	54.60	35.62	5.39	4.38
1991	52.94	35.70	5.70	5.66
1992	48.09	38.04	6.76	7.11
1993	43.13	38.36	8.35	10.16
1994	34.07	40.87	11.51	13.55

<sup>a</sup> SOEs = state-owned enterprises;

<sup>b</sup> COEs = collective-owned enterprises;

<sup>c</sup> POEs = private-owned enterprises;

<sup>d</sup> Others = enterprises of other ownership forms, including foreign-invested enterprises such as foreign joint ventures and wholly foreign-owned ventures.

Sources: Adapted from Lo, 1997: 4. Also see Statistical Yearbook of China, 1990: 416 and 1995: 377.

<sup>7</sup> In China, private-owned enterprises (*siying qiye*) refers to those employing eight or more employees, otherwise they are called individual business operators or “entrepreneurs” (*ge ti hu*) (see Shirk, 1993: 42; Wang, 1994: 131; Yabuki, 1995: 59).

The major implications of changes in ownership structure for management included competition created between state and non-state sectors, subsequent reform of government controls over enterprise management and the management system *per se* (Hay et al., 1994; Naughton, 1996; Wang, 1994). Naughton (1996: 226-7) believes that “the entry of non-state producers was critical in ensuring the healthy development of the market sphere.” Similarly, Shirk (1993: 43) has noted that the emergence and explosion of private and other forms of business “shook up state enterprises and made it impossible for them to maintain business as usual”. For example, after a large proportion of the inputs and outputs were supplied at or near to market-determined prices, the performance of many state enterprises failed to match that of enterprises with other types of ownership (Hey et al., 1994). Statistics revealed that in 1992 the labour productivity in foreign joint ventures and privately operated enterprises was more than threefold of state-owned enterprise (Yabuki, 1995: 48-9).

To compete on the market with non-state enterprises, managers in the state sector requested for increased market freedom and began placing pressure on the government to extend to them the same freedom as those given to the non-state sector (Shirk, 1993). The government officially endorsed the separation of government from enterprise functions and the separation of ownership and management (Dye, 1990; Pu, 1990). Although these separations have not been fully realised in practice, enterprises have received considerable autonomy in their operations. For example, in 1993 the proportion of total industrial output value covered by mandatory planning stood at only 4% (*Beijing Review*, January 17, 1994: 4). A number of management contract systems were introduced to bind the interests of managers to the economic efficiency and profits and losses of their enterprises. Under these provisos, China is experimenting with the

ownership of stock, and intends to alter the administrative relationship between the government and enterprises; and to make enterprises, especially those owned by the state, more responsive to market adjustments (Pu, 1990). While management contract systems will be discussed later, changes in the role of government in enterprise management, especially in human resource practices, are examined in the following section.

### **3.3 Changes in Government Regulation of Human Resource Practices**

Chapter 2 (see Section 2.2.3) briefly discussed the “cyclical vigour/chaos phenomenon” (Lin et al., 1996: 12-3), which referred to the oscillation between centralisation and decentralisation, or specifically, the shifts of control between different levels of government. This phenomenon did not signify that the state had disengaged itself from the organisation, or the ownership and control of enterprise businesses. Rather, these changes “preserved intact the basic characteristic of Chinese enterprises: their integral incorporation in the government administrative system” (Riskin, 1987: 159). This is why “the post-1978 reform in China had to be oriented toward neither centralisation nor decentralisation...but toward the expansion of enterprise authority” (Ishihara, 1993: 16). This section begins with an analysis of the relationship between the government and enterprises both before and during the reforms, and then examines changes in government regulation of human resources with respect to employment and compensation practices.

### **3.3.1 Administrative relationship versus economic relationship**

Before the reforms, China's economy fluctuated between periods of centralisation and decentralisation (Holton, 1987; Ishihara, 1993; Lin et al., 1996; Naughton, 1996; White, 1984; also see Section 2.2). When the Communists took over in 1949, they moved to implement an economic planning system based on the Soviet model with centralised power, and this was achieved during the period of first five-year plan (1953-57). However, decentralisation started in 1958 with the Great Leap Forward movement (1958-61), which gave local authorities permission to set production quotas and capital construction plans with little control from the central government. The failure of the Great Leap Forward and subsequent imbalances in the economy resulted in the restoration of centralisation in 1962. With the economic recovery in 1964, managerial powers were shifted back to the local authorities. Throughout the Cultural Revolution (1966-76), decentralisation was "in vogue in a major way and conditions became semi-anarchic" (Holton, 1987: 97). After ten years of chaos, the government headed by Hua Guofeng intended to restore the pre-Cultural Revolution system by re-centralising industrial administrative authority (Lee, 1987).

Successive waves of centralisation and decentralisation, however, did not signify that the government had disengaged itself from the organisation, or the ownership and control of enterprises. Instead, they represented shifts of power back and forth within the government from the central economic ministries to the local authorities, and at no time did such a swing overstep the boundary of administrative control (Ishihara, 1993; Jackson, 1992). Chinese economists have also observed that the government's readjustment of the economic system "was confined to the level of administrative decentralisation and re-centralisation, in other words, the re-delineation of the authority

between the sectors and regions, and correspondingly, a cyclical increase or decrease in the number of administrative organisations" (Lin et al., 1996: 128). These changes, thus, "preserved intact the basic characteristic of Chinese enterprises: their integral incorporation in the government administrative system" (Riskin, 1987: 159). This type of change often caused problems for enterprises. For example, many big enterprises which were administered directly by the central ministries were placed under local government control (at provincial or/and municipal level), but the supply of materials to these enterprises, their production, and the marketing of their products remained under the control of the central ministries. This decentralisation placed more constraints on enterprises as they had to deal with more than one authority, such as the central ministry, the provincial or/and municipal government (Xue, 1982: 35).

Regardless of whether overall control rested with a central or a local bureau, "the same hierarchical logic of directive planning operated" and "the basic factor of administrative subordination" remained the same (White, 1984: 44). The relationship between enterprises and the government was mainly administrative rather than economic, because of the dual roles of the government under the central planned economy (Chen, D.R. 1995). The first was the role of the sole owner of state assets, which forced the government to be responsible for managing these assets. The second was the role of an administrator of a country, which enabled the government to be in charge of general administration, including regulating the economy and formulating economic policies. In this system, economic activities were highly centralised in the hands of government at different levels, and enterprises were treated, as a noted Chinese economist Ma Hong (1981, in White, 1984: 44) described, "like beads on an abacus pushed hither and thither by bureaucratic fingers". Since enterprises were stripped of their independence and

assumed no responsibility for either profits or losses, they simply became appendages of various government agencies and generally under-performed (Dong, 1982).

To shift initiative and incentive from the state administration to enterprises became one of critical issues for the reform process. This is why "the post-1978 reform in China had to be oriented toward neither centralisation nor decentralisation...but toward the expansion of enterprise authority" (Ishihara, 1993: 16). The dual role of the government and its overall relationship with enterprises was also challenged during the post-Mao reforms. The renowned Chinese economist Dong Furen (1982) claims that the key change in the reforms needs to occur in the relationship between the state and enterprises, which should shift from being administrative to economic. He argues that the government should guide and co-ordinate enterprises through market and economic leverages, leaving enterprises truly responsible for their own production operations including supply, marketing, wages, prices and their own profits and losses (Dong, 1982: 130-4). Similarly, White (1984: 44) has pointed out that economic decentralisation should be implemented in basic-level production units rather than remain at different levels of government and that the decision-making power of enterprises should be further expanded and an "economic" relationship should be established between the government and enterprises. In 1987, the Party congress officially called for the separation of government from enterprise functions to make them independent economic units and to "encourage enthusiasm and initiative in enterprises, inspire healthy competition, and establish a dynamic socialist economic structure" (Dye, 1990: 223).

The criterion for such a separation, as detailed by the Chinese economist Zhou Shulian (1997: 30), was based on whether enterprises were entitled to "four responsibilities": the

responsibility for their own business and operations; profits and losses; business development and expansion; and legal compliance. With the development of reforms at micro- and macro-levels as discussed previously, the government has gradually changed over from administrative control through planning at central and local government levels to control through economic means, such as allowing freedom of price setting and implementation of the Taxation Law (Ishihara, 1993; Lin et al., 1996). In 1997, ten years after the release of the policy of separation, most enterprises were granted production and management autonomy. However, many enterprises with poor performance still relied on state subsidies, and some enterprises had to wait for government loans for business expansion (Zhou, 1997). These phenomena indicate that the separation between the government and enterprise functions is only partial, and there is a long way to go to set up a real economic relationship between the government and enterprises in place of the administrative relationship. Nevertheless, the partial change has already had profound implications for enterprise management, especially in HR practices. The following two sections look at these implications by examining the government's role in employment and compensation practices pre and during the reforms.

### **3.3.2 From labour allocation to 'two-way' selection**

In Section 3.2.2, we discussed the reform of planned allocation of material and financial resources due to their incompatibility with economic development. In comparison, planned allocation of labour resources received even more criticism as researchers argued that, of all aspects of allocation under the command economy – human, material and financial, “the allocation of labour resources is by far the furthest from the market mechanism” (Liu & Zhao, 1979, in White, 1993: 269). Centralised administrative labour allocation, based on the ideology of full employment, was a



distinct feature of employment practices in China. This section explores the method of allocation before the reform process, the issues and problems that resulted from such an allocation system, and how centralised labour allocation has been gradually replaced by 'two-way' selection since 1979. From the examination of reforms in the allocation system, we can observe the change in the role of government in employment practices.

The nationally unified labour allocation practice was started soon after the founding of the PRC. In 1951 the central government began to include employee numbers in its economic planning, and the State Council required a gradual implementation of a unified system of labour allocation instead of just offering employment services, such as introducing job seekers to enterprises (He & Shu, 1992). Beginning in the early 1960s, the government "exercised strict control over industrial labour, setting enterprise labour quotas and assigning workers to enterprises" (Shirk, 1993: 31). The allocation system was very "authority-centred", and its major features included the exercise of state authority and co-ordination through central planning (Lee, 1987: 33). As Maoists believed that labour was not a commodity but a national resource, it was neither the market nor the enterprise but the state, represented by different levels of bureaucratic administrative agents, that had monopoly control of urban jobs (Bian, 1994; Chan, 1996; White, 1983a). For example, the local labour bureau usually controlled job assignments within an overall quota set by the Ministry of Labour (Byrd & Tidrick, 1987).

By the mid-1960s direct control over labour allocation between enterprises and geographical areas "had nullified the operation of a labour market" (Jackson, 1992:

143). The needs of the state were always given priority in assigning jobs, and political ideology, vocational proficiency, and health of graduates would be considered. University graduates, for example, were assigned jobs in a particular *danwei*<sup>8</sup> (i.e., a work unit such as an enterprise or a government department) under a unified plan drawn up by the State Planning Commission. Normally they would accept the state assignment despite a mismatch between job and skill or a conflict with personal preferences, because they had been imbued over the years “with the need to subordinate their private concerns to those of the state” (Tung, 1982: 15). Similarly, workers were assigned to *danweis* (usually enterprises) by local bureaux of labour and were then offered permanent jobs (Child, 1994; Nyaw, 1995; Warner, 1995; Zhao, 1994).

The allocation or appointment of cadres (referred to here as managers, see the detailed explanation in Chapter 4) was controlled by the Ministry of Personnel and its branch bureaux or departments at lower levels. This was demonstrated by the results of a large-scale survey conducted in 1985 in China (2447 respondents from 900 enterprises located in 18 cities were involved, see Yang et al., 1987: 74-88 for details). Among the 1386 cadres surveyed, 60.1% were appointed by superior authorities, 30.7% were chosen by superior authorities from the candidates nominated by the workers’ congresses, and only 4.4% were elected by employees. In addition, the criterion for

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<sup>8</sup> The definition of *danwei* given by Lu and Perry (1997: 5-6) is “a work unit that exhibits the following attributes: personnel power; communal facilities; independent accounts and budgets; urban or nonagricultural purview; and public sector”. Shenkar and Von Glinow (1994: 13) have further explained that *danwei* is a “typical Chinese work unit.... Its employees depend on the unit for everything from social insurance and medical care to provision of ration cards for basic food staples and various industrial goods”.

cadre appointment was often politically oriented with little emphasis on business or management skills (Lockett & Littler, 1983; Tisdell, 1993).

What issues and problems are associated with such an allocation system? White (1983b: 257) notes three major issues. First, the quantitative problem of providing enough jobs to keep pace with the expanding urban population, which was particularly important as China was pursuing a full employment policy. Second, the qualitative issue of ensuring a fit between jobs and skills, that jobs were productive rather than just make-work, and that over-staffing problems could be avoided or reduced. Third, there was the political issue of satisfying job-seekers' needs to achieve political and social stability. Considering these three issues, the centrally planned allocation system appealed only in the aspect of quantity by guaranteeing that every job seeker in urban areas belonged to a *danwei*. Consequently, a lifetime employment system was created by assigning people to jobs and forbidding job change, which in turn led to the emergence of "unitism"<sup>9</sup> (Shirk, 1993: 31).

Unitism and the lack of a labor market diluted labor incentives and reduced enterprise efficiency for two qualitative reasons. First, the allocation system deprived enterprises of their autonomy to select managers and employees and denied individuals the right to choose their employment. Concerns for job security forced employees to accept rigid job positions which might not match their skills (Henley & Nyaw, 1987; Jiang, 1994) with limited opportunity for them to select different jobs where they could fully

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<sup>9</sup> The allocation system supplied people jobs with lifetime employment in one work unit. "Unitism" thus means "a system in which work units became total communities with full responsibility for the housing, welfare, retirement, and schooling of employees and their families and complete control over their lives" (Walder, 1986; Henderson & Cohen, 1984; cited in Shirk, 1993: 31).

apply their talents and skills (Nelson & Reeder, 1985). Second, the system totally neglected changes in labour supply and demand, and urban residents were often allocated to enterprises regardless of demand (Shen, 1996). The high employment rate in urban areas was achieved through low salary levels, which resulted in poorly motivated employees, substantial overstaffing and long-term stagnation of labour productivity in the industrial sector (Jackson & Littler, 1991; Shi, 1995; Yabuki, 1995). These problems inevitably led to political and social instability in the long term.

In 1980, the policy of ‘combining three employment channels’ (or ‘three-integration system’) was introduced to replace the labour allocation system (Feng, 1996; Hannan 1995; Yue, 1985). The three channels referred to: 1) employment through government labour bureaux; 2) voluntarily organised employment by the formation of a collective enterprise; and 3) seeking job opportunities oneself (e.g., setting up one’s own business). Whereas the first channel was still similar to the traditional allocation system, the last two channels reflected a radical change in the role of the labour bureau from administering and allocating employment to offering recommendations and advice to urban job seekers and enterprises (Branine, 1997; Zhu & Campbell, 1996). The new policy also required the labour bureau to assist job seekers in organising collective enterprises or setting up their own businesses (Yue, 1985). The implementation of the policy has not only facilitated the development of industries with different types of ownership, especially collectively and privately owned enterprises, but also enabled ‘two-way selection’ (i.e., free selection of occupation by individuals, and free selection of employees by enterprises) (Liang 1997; Warner 1995; Zhao, 1995).

Two-way selection is now widely used by employers and employees, especially university graduates (Ma, 1997). Instead of being assigned by the state, graduates can market themselves to organisations by sending applications and attending interviews. Obviously this selection method will improve the quality of 'allocation' by achieving a better 'fit' between jobs and applicants and offering more incentives to both applicants and organisations. However, Zhang (1996) has argued that two-way selection would shift greater power to the enterprises as there are so many retrenched employees in the labour market and it could also lead to short-term behaviour on the part of employees because of lack of job security and long-term commitment. Despite its shortcomings, the two-way selection method together with other industrial reforms has led to a more market-oriented approach to employment.

With economic power being decentralised from the state to enterprises, managers have gained control over what to produce, how to market their products, and personnel policies (Boisot & Child, 1996). They have had to gear up their production to meet market demand and be responsible for their own survival. In order to attract and retain competent and motivated employees to increase productivity, organisationally administered recruitment and selection has largely replaced centralised government assignment of employees. Nonetheless, the central allocation system has not been totally replaced. Some employees are still assigned to enterprises, especially state enterprises, through labour bureau introduction or recommendation. Feng (1996) has pointed out that after 10 years of the three-integration system, 60.5% of people employed in 1990 were still allocated to state enterprises through such an introduction.

### **3.3.3 From centrally-fixed to enterprise-determined wages**

Like the labour allocation system, the compensation or wage system was strictly controlled by central planners at both micro and macro levels for over three decades. According to Li Weiyi (1991: 77), the former head of the Wage Bureau of the Ministry of Labour, the wage system at the micro level included wage structures, scales, and administration; whereas at the macro level it consisted of wage policies, regulations and planning. This section first reviews how the government operated the monopoly of wage control at both micro and macro levels before the reform, and then examines the reform in this centrally controlled wage system. The changes that have occurred and their impact on enterprise management are discussed at the end of this section.

After the founding of the PRC, the government wage policy was formulated based on the Soviet model, as with other aspects of the economic management system (Takahara, 1992). Soviet wage specialists were invited to China to conduct training courses for labour and personnel cadres in charge of wage policy formulation, implementation and administration. Meanwhile, the Ministry of Labour and the All China Federation of Trade Unions (ACFTU) promulgated a series of wage documents such as 'The Draft of Wage Regulations' and 'The Draft of Wage Scales for Industrial Staff and Workers', and jointly convened the first National Wage Reform Preparatory Conference in August 1950, which was also attended by Soviet wage experts (Li, W.Y. 1991). Whilst the soviet-style wage grade system was experimented with in enterprises in the early 1950s, the 'supply system' (*gongji zhi*) was still used for those cadres who had joined the Party or the revolutionary army before 1<sup>st</sup> October 1949 (Li, W.Y. 1991: 25). The supply system was based on the Party's own experience before 1949 and was an egalitarian

reward system. Under this system, cadres were supplied with living necessities according to their needs.

With the recovery of national economy, the government started its first nation-wide wage reform in 1952. Four major results were achieved from this reform (Zhao, 1995: 173). First, the wage point system (*gongzi feng*)<sup>10</sup> was used as a national standard measurement for wage scales. Second, the majority of industries adopted the eight-grade wage system for enterprise workers, while a few implemented the seven- or six-grade system. Most industries also established or revised their technical grade standards for workers to determine wage grade or grade promotion. Third, the position wage system was applied to enterprise staff. Under this system, “wage standards for various posts were stipulated according to their importance, responsibility and technical complexity, and the current wage levels” (Takahara, 1992: 31). Finally, piece-rate and bonus systems were established to offer more incentives to workers. These systems became widespread under the one-man management system in the early 1950s (Jackson, 1992).

In July 1955, the Ministry of Labour was designated by the then Premier Zhou Enlai to be in charge of national wage reform. At the same time, the supply system for cadres was replaced by a monetary wage system. In 1956 the state issued the ‘Decision on Wage Reform’ and the second nation-wide wage reform was formally launched (Li, W.Y. 1991). According to Takahara (1992), the driving forces for the reform included factors such as the influence of Soviet experts and models and the socialist transformation completed in China. For example, some policy-makers believed that the establishment of

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<sup>10</sup> Each wage point included a certain amount of money which could purchase 0.2kg of grain, 13cm of cloth, 25g of cooking oil, 10g of salt, and 1kg of coal (Li, W.Y. 1991 : 22).

a Soviet-style wage grade system could better implement the socialist distribution principle of 'to each according to one's work' and thus to increase productivity. Furthermore, the completion of socialist transformation laid down the administrative basis for a centrally planned economic system and a nationally standardised wage system. Apart from these, the need to unify wage standards to avoid unequal pay for equal work and employees' complaints about stagnant wages since the early 1950s also became part of the reasons for reform (see Takahara, 1992: 25-7).

The second wage reform replaced the 'wage point' system and various types of subsidiaries with a unified monetary wage system. Wage scales were formally divided for workers and cadres. The wages for most workers were still governed by the eight-grade system scaled according to variations in skills, from unskilled (grade 1) to highly skilled (grade 8), though a seven-grade system applied to construction workers, and the position wage system was introduced for textile workers. Wage differentials were also set among different geographical districts (e.g. inland or coast), industries (heavy or light), and enterprises (large or small). Wage differences between each grade were increased to avoid egalitarianism. In general, heavy-industrial enterprises had higher wage scales for each grade than those in light industries. The difference between grades 1 and 8 for workers was 2.8-3.2 fold, with an average of 3-fold increase (Tung, 1982: 140). As for enterprise cadres (i.e. technical and managerial staff), a revised position wage system was applied with more categories and grades according to different districts, industries, enterprises, and the type of work. For example, wage scales at the China First Automobile Manufacturing Factory were increased from 48 to 126 in 1956 (Li, W.Y. 1991: 98). This wage reform also encouraged wider adoption of piece-rate wages and emphasised the use of bonus system to reward innovation, improved productivity and



exceeding of targets (see Li, W.Y. 1991; Takahara, 1992; Tung, 1982). As a result of this reform, a nationally unified wage system was established, which placed emphasis on material incentives and economic evaluation factors such as technical skills rather than political correctness, and aimed to enhance productivity and technological development (Takahara, 1992).

Some practices adopted by the 1956 wage reform such as piece-rate wages and bonuses were attacked and abolished during periods of political extremism and low industrial growth including the Great Leap Forward and the Cultural Revolution (Henley & Nyaw, 1987). From 1957 to 1977, four national wage readjustments were conducted for enterprise workers and cadres (Li, W.Y. 1991; Shi & Wu, 1993). These readjustments were centrally planned with strict quotas and detailed requirements, and not related to individual or enterprise performance. For example, the national wage rise in 1959 was applied to only 30% of workers and 10% of cadres (Li, W.Y. 1991: 52). In 1963, only 40% of workers and less than 40% of cadres had wage increase, with lower-ranking cadres being favoured (i.e. the lower the grade, the higher the percentage receiving an increase) (Shi & Wu, 1993: 212). Apart from these partial wage readjustments, the government made other modifications such as simplifying wage scales and reducing the differentials between wage grades.

However, wages failed to play a role in work effort control within enterprises and there was no serious attempt to reform the wage system before 1978 (Jackson, 1992). The major reasons for the wage system remaining intact were the impact of Mao's ideology and the strategy adopted by the government. In 1958 Mao advocated the restoration of the supply system and gradual abolition of the wage system (Li, W.Y. 1991). Similarly,

Bettelheim (1974, in Jackson, 1992: 142) explained that, as the Maoists' goal was the attainment of a communist society where people could be supplied according to their needs, wages would become irrelevant eventually and thus the restructuring of the wage system was not necessary. A low wage system also suppressed the labour cost associated with pursuing the heavy-industry development strategy (Lin et al., 1996).

The over-centralised wage system inevitably led to two practices that were detrimental to economic development. One was called "enterprises eating from the big rice pot of the state" (*qiye chi guojia de daguofan*) and the other was called "employees eating from the big rice pot of an enterprise" (*zhigong chi qiye de daguofan*) (Shi & Wu, 1993: 93). The first practice meant that regardless of performance, enterprises had the same wage increases during national wage adjustment. Loss-making enterprises could even receive financial assistance from the state to enable them to fund pay increases. This unified and guaranteed pay increase led to egalitarianism among enterprises and encouraged enterprises to rely on the state. The second practice referred to wage increases that were not related to individual performance. As the quotas, standards, criteria and time for wage increase were regulated and unified throughout the country, local governments and individual enterprises had no say in such adjustments (Lin et al., 1996). As a result, seniority or the year of starting work was often used as the major criterion in wage increases irrespective of individual performance. This practice resulted in egalitarianism among employees and dampened individual initiatives to perform well.

In 1982 the wage system became one the three major targets for reform (the other two were the labour and personnel system and the social security system) mainly because of its four problems (Li, W.Y. 1991). These problems were abbreviated to "*di, ping, luan,*

*si*” in Chinese, which referred to low wage levels (*di*); absolute egalitarianism (*ping*); chaotic wage grades and scales (*luan*); and over-centralised rigid wage fixing (*si*) (Li, W.Y. 1991: 68-70; Jackson, 1992: 134-9; Shi & Wu, 1993: 93). To address these problems, the piece-rate and bonus systems were restored soon after the commencement of economic reforms. Then different types of profit retention, profit contracting and profit-for-tax systems were experimented with and different wage packages were introduced as well (see Section 4.5 for details). All these methods aimed to increase wage levels and offer incentives. However they all possessed the major weakness that only the employee bonus rather than the total wage was linked to enterprise performance. This meant whether enterprises made profits or losses, employee wages would not be affected.

The reform of enterprise wages did not really start until 1985 when the State Council issued official guidelines and announced that the total payroll of enterprises should be linked to their efficiency (Li, W.Y. 1991; Zhao, 1995). Under this efficiency-linked wage system, the government would only control the total amount of an enterprise’s payroll, leaving the distribution for the enterprise to determine. Hence the total payroll would not change regardless of the number of employees. It would only be augmented in proportion to the increase in enterprise productivity and profitability. By linking the rate of wage rise to productivity increase, the government tried to offer enterprises incentives and control labour costs as well. It was the first time that enterprises had the autonomy to determine their payroll based on efficiency and decide on the way to distribute money among their employees. This decentralisation of government control over wages at the micro level enabled managers to use wages as an incentive tool to reward high performers. However, Wong et al. (1995: 11) have observed that “wage changes are asymmetrical, rising when efficiency rises but seldom falling when efficiency declines”,

or, as Zhao (1995: 177) observed, “the linkage was only made to profits rather than losses (*guaying bu guakui*)”.

Despite its flaws, the performance-linked wage system is still used in enterprises. Since the promulgation of the Labour Law in 1995, enterprises have had more decision-making power in their wage distribution as long as they meet minimal wage requirements. The latest aims of the government for further wage reform in the ninth five-year plan (1995-2000) are that “the market determines wage scales, enterprises control wage distribution, government monitors and makes adjustment” (Xiong, 1998: 61). In 1997, the Ministry of Labour issued wage policies that stipulate three major roles to be played by the government in wage monitoring and adjustment. The three roles are: to set limits on the ceiling of wages to avoid extreme polarisation; to guarantee the minimum wage as the bottom line of pay; and to monitor the increase of average wage income (Liu, 1997).

To fulfil these roles, the Ministry of Labour has detailed its plan of action rather than just being a watchdog. The plan includes six actions (Wang, 1997: 76; Liu, 1997: 10). The first is to experiment with wage guidelines (*gongzi zhidaoxian*), which indicates average wage levels and rates of pay increase in different industries, sectors and areas. The second is to monitor the implementation of flexible wage packages in some enterprises based on the wage guidelines. The third is to improve efficiency-linked pay by linking wages to both profits and losses, in which collectively negotiated efficiency-linked pay system will be recommended and tried first in foreign-invested enterprises. The fourth is to adjust the wage ceiling in some industries with monopoly control of the market (e.g., energy and communication). The fifth is to recommend an annual salary rather than monthly wages for senior managers. The final action is to control the salary level within

the limits set by the state. The plan indicates that while enterprises have autonomy to determine wage scales and distribution, they must work within the limits set by the government. Even though the government's role in wage control has remained mainly at the macro level, it has not given up all its power at the micro level.

The implications of this decentralisation of decision-making authority to enterprises with regard to wage distribution are profound. First, managers (especially those working in human resource departments) rather than the Ministry of Labour will have to handle wage management. Second, the design of wage packages and their effective implementation in which incentives are tied to desired behaviours are challenging issues for managers to deal with. Last but not least, managers have to use wages as an effective tool to help attract, retain and motivate employees now that enterprises are in a more market-oriented economy. The emergence of a free labour market and increasing competition among enterprises with different forms of ownership have made the resolution of these issues increasingly complex.

### **3.4 The Impact of Reforms on Management Practices**

The transition of the economic system, rapid growth of enterprises in the non-state sector and changes in the role of government with regard to HR practices have all had a significant impact on management practices. The fundamental changes in management practices began to take place in the early 1980s with the adoption of different systems of management responsibility. Two critical issues emerged when implementing these systems: first, who should take responsibility for the enterprise, the enterprise party committee or the director (the chief executive officer in Chinese enterprises); and

second, should the responsibility be primarily political or economic and, if economic, how should it be specified (Hay et al., 1994). These two issues rightly reflected the problems underlying puppet-like management. In other words, questions have arisen regarding whether the Party's supremacy should still be kept intact in enterprise management; whether politics should still take precedence; what responsibility a director should have regarding production and operations; and what appropriate indicators of management performance should be adopted.

To address these questions, and to effectively solve the problems of the puppet-like management, a number of different management systems have been tried, one after another, since the beginning of the reforms. Three major systems are examined separately in chronological order in the following sections. It demonstrates that every change in the management system is closely linked to reforms at micro and macro levels, including reforms of the tax, price and resource allocation systems, subsequent emergence of different types of ownership, and changes in government roles as discussed previously.

### **3.4.1 The factory director responsibility system (FDRS) (1984-86)**

Along with the abolition of the revolutionary committees in late 1978, executive bodies were established in most enterprises consisting of a Party committee and a working committee, with the latter under the leadership of the former. Meanwhile, a tentative system of division of responsibility was tested, with the factory director<sup>11</sup> under the leadership of the Party committee (Tung, 1982: 161). Nominally, this system was similar

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<sup>11</sup> 'Factory' and 'factory director' were more frequently used than 'enterprise' and 'enterprise general manager' before the issue of the 'Enterprise Law' in 1988.

to the DRSULP (director responsibility system under the leadership of the Party) used in the mid-1950s (see Section 2.3.2), but it granted enterprises “a certain degree of autonomy and a partial claim to newly created revenues” as a result of adopting the profit retention system (1979-81) and the profit contract system (1981-83) (Lin et al., 1996: 138-40).

As the enterprise at this stage was controlled by the collective group represented by the Party committee rather than the factory director, there was no clear delineation as to who should assume responsibility for production operations, especially for any losses caused by incompetent decision making (Child, 1987; Hey et al., 1994). This collective system diffused responsibility for enterprise performance and was criticised by Deng Xiaoping when he stated that, “Nominal responsibility of the committee for decision-making means no responsibility, or nobody to be really responsible for decisions” (Zhang 1987, in Hay et al., 1994: 20). Lockett (1990) also observed that by the early 1980s the role of the Party committee in management was perceived as problematic because of the ignorance of committee members with regard to technology, economics and management of the enterprise. The implementation of this system indicated the strong impact of Mao’s ideology that the Party should direct and control everything, and that the Party’s unified leadership should be practised over all economic institutions including enterprise business operations (Hey et al., 1994; Kaple, 1994; White, 1993).

From the early 1980s, state enterprises faced increasing competition due to the entry of non-state enterprises that became more competitive in the market. In order to improve the performance of enterprises, post-Mao reformers tried to separate the functions of the Party committee and factory directors by reducing the influence of the Party committee

and curtailing its rights to making decisions about production (Lin et al., 1996; Mackerras et al., 1994; White, 1993). These changes were endorsed by the policy document on 'China's Economic Structure Reform' adopted by the Party Central Committee in October 1984. The policy recognised the significance of division of labour in modern enterprises, emphasised a subsequent necessity of establishing a highly efficient system to direct production and conduct operations and management, and declared that the contingencies of modern industry required the director or manager to assume full responsibility (Child, 1987). The factory director responsibility system (FDRS) was introduced and implemented on an experimental basis in six cities in the autumn of 1984, and later extended to the whole country (Child, 1987; Mackerras et al., 1994).

The FDRS was intended "to identify and hence structure the distinctive executive powers of management and to distinguish these from the rights and functions of state ownership and of the Party" (Child, 1994: 296). Under this system, the ultimate managerial authority was vested in enterprise directors who were responsible for enterprise production, sales, pricing, purchase of materials, use of funds, handling of assets, structural establishment, personnel and labour, wages and bonuses, and inter-unit operations (see Laaksonen, 1988: 240-1 for example). The Party committee was no longer involved in economic decision-making within the enterprise, and was relegated to a nebulous supervisory and co-ordination role. It was to ensure that state policies and laws were adhered to and the state quotas were fulfilled, and to assist the director to improve productive performance. It was also responsible for carrying out political and ideological work among employees (Naughton, 1996; White, 1993; Wong et al., 1995).



Since the introduction of the FDRS, the government has passed several laws and regulations in its efforts to institutionalise the system. In 1986, the State Council issued the Regulations on the Work of Factory Directors in State-owned Industrial Enterprises, which gave directors final operational authority although in making major decisions they were still required to consult a management committee composed of the Party secretary, heads of the trade union and other functional departments (Byrd, 1992). In 1988 the Seventh National People's Congress adopted the Enterprise Law that not only legitimated the leadership position of directors but also legalised the functions and powers assigned to the director. Directors were appointed for one- to three-year terms, at the beginning of which they were required to set out both long- and short-term targets of their enterprises, and reappointment depended partially on their achievement of goals (Mackerras et al., 1994: 80; Zhao, 1995: 72).

The autonomy of factory directors with respect to production was facilitated by the government's reduced role in planning and controlling as well as by the fiscal reforms in 1984 that replaced profit remittance to the state by taxes on profits. According to the 1984 Enterprise Bill of Rights, all managers had the authority to establish their own production plans provided that they fulfilled mandatory state plans. Based on a survey conducted in 1990, Naughton found that "the proportion of managers actually having such authority increased gradually from only about a quarter of total enterprises in 1984 to two-thirds by 1988 and almost 90 percent by 1990" (1996: 207). Additionally, with the fiscal reform, absolute ceilings on bonus payments were eliminated and replaced by a progressive bonus tax (Naughton, 1996). This offered managers more flexibility to decide on the amount of bonuses and their distribution. This enabled managers to reward

high performers and widen differentials between skilled and unskilled work (Child, 1994: 186).

The FDRS specified clearly who within the enterprises could exercise decision-making power, and it was the first time a unitary management system had been officially accepted since the adoption of the Soviet one-man management in the 1950s (Child, 1987). However, some serious problems were identified within this system. Lo (1997) has observed an asymmetry between benefits and responsibility of factory directors as there was a persistent tendency for investments and bonuses to expand. The investment hunger of enterprises was caused by the fact that directors would receive further benefits if they succeeded but risk very little if they failed. The bonus expansion occurred mostly through “wage emulation” rather than productivity improvement (Lo, 1997: 109).

Hay and colleagues (1994: 21-2) have also pointed out some issues that were not resolved by the system. First, the definition of ‘responsibility’ was vague and its interpretation was flexible, i.e. what was the content of responsibility – was it administrative, political or economic? Second, lack of strong motivation and commitment to meet profit targets was identified as a marked weakness. The system allowed the pay of a director to exceed the average level of workers' pay by only one to three fold, and the mechanism for determining managerial pay remained unclear (Byrd, 1992). Third, responsibility was ‘one-way’, i.e., the director was responsible to higher authority, but this did not prevent intervention by higher authority without any responsibility for the consequences of such intervention. Child (1994) attributes this problem to solidly formulated structures of central planning and hierarchical administrative control that could not be easily removed. Because of these unsolved

problems, especially unsatisfactory performance indicators such as falling enterprise profits and contracting state budget revenue (Lo, 1997), the FDRS was replaced by a new contractual management system in 1987.

### **3.4.2 The contract management responsibility system (CMRS) (1987-94)**

The contract management responsibility system (CMRS) was applied generally throughout China in 1987. It proved to be very popular and was the longest surviving incentive system and managerial mechanism in the industrial sector (Chai & Docwra, 1997). This section examines the main objectives and practices of the CMRS and reasons that contributed to its replacement in 1994.

With the implementation of the FDRS, the government delegated more decision-making powers to enterprises to allow them to compete freely on the market. This was difficult in practice at that time due to dual-track prices. Because enterprise profits were often not determined by management performance but rather by access to inputs with low prices, permission to sell more products on the market, or the ability to increase profits by rent-seeking, competition remained unequal between enterprises (Lin et al., 1996; Naughton, 1996). In order to create equal conditions for all enterprises, the government took into account each enterprise's business conditions and environment by negotiating individual contracts for each enterprise (Ishihara, 1993). The CMRS was introduced and swiftly became the general practice among enterprises, especially state enterprises. By 1990, more than 90% of enterprises had come under the CMRS (Jackson, 1992: 109). This system restored targets for profit delivery, and established a more explicit link between enterprise performance and the payment of bonuses to workers (Hay et al., 1994).

Contracts used in the CMRS were negotiated between the enterprise, usually represented by its director, and its supervisory agency, and involved the specification of items such as the amount of profit to be remitted, investment and technical innovation targets and the tying of wage bills to total profits (Fan, 1994: 149). Under the CMRS, an enterprise was contracted to complete certain production tasks for the state, and to submit tax payments to the state as well as a mutually agreed specified portion of its after-tax profits. All profits after tax in excess of this specified portion could be retained by the enterprise to use for expansion, to pay bonuses or to provide collective welfare benefits. If an enterprise failed to meet agreed targets, then the shortfall had to be made up from its own funds (Tisdell, 1993). This practice was also called the “two-guarantee and one-linkup system” (*liangbao yigua*), that is, the enterprise should guarantee the state delivery of a certain amount of profit, guarantee the completion of certain planned tasks such as technical renovation, and link the growth of its wages bill to enterprise efficiency indicators (Chai & Docwra, 1997: 163; Chen, D.R. 1995: 63; Hay et al., 1994: 25).

The duration of a contract averaged three to five years, and this was intended to alleviate the problems caused by the ratchet effect (Fan, 1994; Naughton, 1996). It was believed that long-term contracts could avoid continuous re-negotiation for targets and “would establish a quasi-legal guarantee for the enterprise manager’s autonomy over a somewhat longer period” (Naughton, 1996: 213). Shirk (1993: 315) has argued that the duration of a contract was actually not an issue due to one of its distinct features – “lack of risk” (1993: 323). According to Shirk, a long-term arrangement could in theory put enterprises under greater financial risk and might even create personal liability for managers during periods of price reform when there were severe fluctuations in the market. However, the practical definition of “contract” used in the Chinese context was different from that used

in the West, as the contract did not have “real teeth” and was just “an overall agreement” between two parties (Chen, D.R. 1995: 57). Enterprise managers could always renegotiate their contracts to compensate for any external factors that reduced their revenues, thus they in fact carried no risk (Byrd, 1992; Chen, D.R. 1995) - they actually “contracted only for profits and not for losses” (Shirk, 1993: 315).

Many researchers (e.g., Byrd, 1991; Chen, D.R. 1995; Child, 1994; Hay et al., 1994; Lo, 1997) believe that because of the implementation of the CMRS, enterprise managers became more independent from higher level authority, had more focused managerial objectives and a more business-like orientation, were more responsible in their investment behaviour, and were encouraged to reform their payment systems. Liew (1997: 84) has provided evidence of productivity improvements achieved by state enterprises under this system. However, while this system was effective in ensuring greater stability in state revenue collection and in increasing workers’ income, it focused mainly on profitability rather than on developments such as technical innovation and enterprise expansion (Chai & Docwra, 1997; Ishihara, 1991; Lo, 1997). This was partly due to the lack of emphasis by the state on such long-term strategies and partly due to the availability of soft loans from the state. The soft loans, in particular, encouraged managers to avoid using their discretionary funds for long-term investment at a possible personal expense (e.g., bonuses forgone) (Tisdell, 1993: 156). Apart from this short-term behaviour, the system had other weaknesses such as individually based negotiation and vulnerability to external influences.

Shirk (1993: 322) used the term “particularism” to describe the problem caused by enterprise-based negotiation. As the tax rate was individually set rather than being

uniform in the system, bargaining between the parties to the contract was still an option and any budget constraint imposed on the enterprises could thereby be softened (Chai & Docwra, 1997; Fan, 1994; Jackson, 1992; Wong et al., 1995). Furthermore, negotiations covered issues ranging from the contract terms to lines of actions if the enterprise failed to reach its profit target (Wong et al., 1995). Although Lo (1997) has argued that bargaining under the CMRS was mainly around financial performance rather than inputs allocation and outputs delivery as it was under the central planning system, some researchers believe individually-based negotiations were incompatible with the goals of enterprise reform (Jackson, 1992; Wong et al., 1995). Because contracts varied between different enterprises, industries and localities, the contracting method became too arbitrary to discriminate between capably and poorly managed enterprises (Shirk, 1993).

Furthermore, managers were still vulnerable to external influence from bodies such as the Party and government departments (Chen, D.R. 1995; Naughton, 1996; Tisdell, 1993; White, 1993). For example, under the CMRS, managers were designated as the legal representatives of enterprises and were responsible for the fulfilment of tasks set in the contract (Lo, 1997). However, the Party secretary was not prevented from direct participation in enterprise management, and political consultation was often required for managers to receive support from the Party secretary (Tisdell, 1993). This became more obvious after the Tiananmen incident in 1989, when an absurd slogan was put forward, "The manager is the centre, and the Party Committee is the core" (Chen, D.R. 1995: 75; Naughton, 1996: 279). The centre and the core referred to a position of utmost authority, indicating that the Party Committee should still have an important role in enterprise management. In 1990 the Party Central Committee set specific guidelines for rebuilding

the Party apparatus in enterprises and detailed the issues that the Party secretary should examine (Naughton, 1996: 279).

Chen (D.R. 1995: 66-8) has observed the attitudes of three different groups towards the CMRS regarding the distribution of power and interests between the government and enterprises. The proponents of CMRS believed that the scheme could be used to serve two purposes: keeping public ownership and gaining enterprise autonomy; and offering enterprises more incentives through profit-sharing. Opponents argued that the system did not provide a rational approach in determining profit targets, partly because the targets were based on past rather than potential performance and partly because of the bargaining process. This shortcoming would subsequently damage the interests of the government. Furthermore, they claimed that the system induced short-term behaviour and excluded other alternatives such as enterprise merger or bankruptcy. A third group proposed that the system was not an ideal choice for the reform process, but was acceptable during a transition period, as it was too early and risky to introduce a shareholding system. The arguments provided by the first two groups recognised the major merits and defects of the CMRS, while the third group predicted the downfall of the system.

State enterprises continued to be out-performed by other types of enterprises and incurred heavy financial losses which increased from 36.7 billion yuan in 1991 to 48.26 billion yuan in 1994 (Hay et al., 1996: 215; Lin et al., 1996: 145). The declining profitability reflected the ineffectiveness of the CMRS, and the “arbitrariness in the distributional relations between the state and the enterprise and related incentive problems” (Xu, 1996: 370). In order to enforce budget constraint to increase enterprise

independence and competitiveness, it was believed that all enterprises should be exposed to the market rather than be protected by the state (Lo, 1997). In 1994, the state implemented a new tax system with a uniform tax, which aimed to equalise the tax burden among different types of enterprises so as to equalise competition. This removed the foundation for the contract system and the CMRS was replaced by the modern enterprise system through corporatisation and shareholding.

### **3.4.3 The modern enterprise system (1994 onwards)**

Since the early 1990s, the increasing financial losses incurred by state enterprises and the subsequent fiscal burden imposed on the state has prompted further reform of state enterprises that were considered by the government “to be the key to the reform of the economic system” (Liew, 1997: 85). Wood (1994) has argued that to rearrange the pattern of state ownership by introducing a shareholding system could help change the target of many enterprises, from having varied objectives (e.g. social and political) to being predominantly profit-seeking. Some researchers also believed that the lack of viability of state enterprises could be attributed to the ambiguity of their property rights, and the shareholding system would be the most effective measure to deal with such problems (Lin et al., 1996).

The program to establish a modern enterprise system through corporatisation and shareholding was formally recommended in the ‘Decision on Issues Concerning the Establishment of a Socialist Market Structure’ adopted by the third plenary session of the 14<sup>th</sup> Party Central Committee in November 1993 (Liew, 1997: 86). This Decision summarised the four major features of the modern enterprise system and pointed out the two major benefits of corporatisation. The four features as defined in the Decision



included, “clearly-established ownership (*chanquan qingxi*); well-defined rights and responsibilities (*quanzhe minque*); separation of enterprise from government administration (*zhengqi fengkai*); and management in a scientific way (*guanli kexue*) (CPC Central Committee, 1993:14).

Chen Qingtai, Vice-Minister in charge of the State Economic and Trade Commission, has described the four features in more detail (Chen, Q.T. 1995: 67). First, under the modern enterprise system, state enterprises would be transformed into corporate entities to operate independently and compete freely on the market. The investors or shareholders of an enterprise would be represented by the board of directors, which would have control of residual rights including the right to appoint and remove managers, and the authority to direct managers towards profit-oriented behaviour. Second, enterprises would be instituted as required by the Corporate Law. While the government has limited liability to the enterprise based on its investment, the enterprise would have utilisation, return and alienation rights.<sup>12</sup> Third, there would be a distinction between the functions of government and enterprises. While enterprises have operational rights to gear up production to market demand, they would be gradually divested of their social service obligations to the government administration. Thus, the government would need to establish a comprehensive social security system to deal with unemployment, pension and other types of social welfare. Finally, management must be modernised by developing advanced managerial skills such as strategy development, effective leadership and organisation structure, marketing, and human resource development.

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<sup>12</sup> The definition of these three rights is “the right to utilise the assets (utilisation right), the right to possess the fruits (and responsibility for negative outcomes, such as damages and debts) of that utilisation (return right), and the right to transfer these rights to another agent through gift or sale (alienation right)” (Putterman, 1996: 87).

As for the benefits of corporatisation, the Decision stated that, first, it would clarify the assignment of property rights so as to separate government administration from enterprise management, and thus allow the state “to get away from its unlimited responsibility for enterprises”. Second, corporatisation would encourage the infusion of new capital into state enterprises by other state corporations as well as by private and foreign investors. Therefore, it was “conducive to raising funds and diversifying risks” for the state sector (CPC Central Committee, 1993:15). The program to set up a modern enterprise system was facilitated in 1994 with the implementation of the new tax system, the abolition of the CMRS and promulgation of the Corporate Law.

In the past, as enterprises were classified in terms of their ownership, the government had to formulate laws for different types of enterprises, such as the Law on State-Owned Industrial Enterprises and the Law on Sino-Foreign Joint Ventures, to suit such a classification. Under the market economy, all enterprises are required to be independent legal entities without administrative dependence, and thus enjoy total equality (*Beijing Review*, May 13, 1996: 17). In accordance with this requirement, the Corporate Law was formulated and issued to provide a uniform legal framework for various forms of shareholding companies (Wong, 1993). According to the Corporate Law, state enterprises could be incorporated as either limited liability companies or share holding companies, which allowed them to issue shares to legal persons (the enterprise themselves), to employees or to the public depending on the type of company (Deng, 1998).

The experimentation of converting state enterprises to a stock system was initiated in the late 1980s, and by the early 1990s large, modern and profitable state enterprises were increasingly being converted into modern corporate forms of various types, including limited liability companies and joint stock companies (Naughton, 1996; Wong, 1993). Shares issued at that time, as observed by Naughton (1996: 298-9), were quite different from those in the West. First, most shares were only issued to the enterprise's own workers as a means of raising funds and some served as bonds because returns were guaranteed. The shares did not bear any rights of ownership and few shareholders were given management privileges. Second, shares issued to the public were held overwhelmingly by government bodies. For example, of all Shanghai joint stock corporations at the end of 1992, 62% of the share value was held by the government, 24% was held by legal persons (predominantly other state enterprises), 7% by domestic individuals, and 7% by foreign investors.

Since 1994, establishing a modern enterprise system through corporatisation has become a new trend. At the end of 1994, 100 enterprises, 18 cities and 56 enterprise groups were selected by the State Council to test this system, and in 1996 it was reported that positive results were achieved through this experiment (*Beijing Review*, June 17, 1996: 14-16). According to this report, the 100 experimental enterprises had achieved an overall increase of 15.5% in total capital assets, and 11.67% increase in sales revenue and a 12.6% increase in realised profits by the end of 1995. The 18 pilot cities had made progress in capital increment, technical innovation, transfer of redundant workers and promoting mergers (Chen, Q.T. 1995: 66). Similarly, the 56 experimental enterprise groups had readjusted relations between parent and subsidiary companies based on property rights outlined in the Corporate Law, and could hence function as owners of

state-owned property. Based on these results, the modern enterprise system was introduced nation-wide in 1996 and its establishment throughout the whole industrial sector was expected to be accomplished during the ninth five-year plan period (1996-2000) (Chai & Docwra, 1997: 169).

While the previous contract management responsibility system tried to improve the management of individual enterprises and relied on the reform of enterprises themselves to change operational incentives, the modern enterprise system has aimed at revitalising the entire national economy by introducing corporatisation, regrouping via merger and acquisition, and even bankruptcies (*Beijing Review*, January 20, 1997: 12; Xu, 1996). The results of the initial experiment with the modern enterprise system indicate that corporatisation of existing state enterprises helps to clarify property rights and operational rights. Under the shareholding system, the dual rights are separated when the manager is appointed by and responsible to the board of directors who are concerned mainly with the return on investment (Xu, 1996). Although Wong (1993: 33) regarded it as “a sort of Chinese way of privatising state enterprise”, the shareholding system has been used not only to raise capital, but more importantly, to preserve state ownership while modernising the internal governance and incentive structure of enterprises to make them compatible with a socialist market economy (Chai & Docwra, 1997).

Although corporatisation or joint stock form has become a popular mode of the modern enterprise system because it achieved a very high degree of separation between ownership and control, some researchers believe it is still not effective under conditions of market imperfection and an ineffective discipline mechanism (Lin et al., 1996). For example, while a free labour market has emerged, enterprises cannot retrench their

surplus employees at discretion because of an incomplete social security system (Zhan, 1997). Recently, 300 large and medium state-owned enterprises have been given preferential treatment in the form of tax concessions, subsidised loans and depreciation allowance retention because they have been selected by the government to be groomed as mega-enterprises to withstand foreign competition after China's entry into the World Trade Organisation (Chai & Docwra, 1997). Just as these enterprises have privileges, many loss-making enterprises still rely on government subsidies or soft loans for their survival (Zhang D.Z., 1996). Furthermore, Wu Jie, the deputy head of the State Committee of System Restructuring, has noted that some government administrative departments have been restructured into corporations without changing their functions. They have still kept the ownership and operational rights of enterprises (Wu, J. 1996). Therefore, the implementation of the modern enterprise system relies on further reforms in other areas, such as the divestment of state enterprises of their heavy social responsibilities, and establishment of detailed legislation for implementing the Corporate Law (Wu, J. 1996; Zhang D.Z., 1996).

In 1996 Premier Li Peng admitted in his report to the National People's Congress that state enterprises had "considerable difficulties in production and operation with their management and operation systems not yet adapted to the requirements of a socialist market economy", and emphasised that the modern enterprise system should be established in most large and medium-sized state-owned enterprises by the end of this century (*Beijing Review*, April 8, 1996: Documents: 3-8). In 1997 at the Party Central Committee, the General Secretary Jiang Zemin stated that China would continue its economic restructuring and implementation of economic development strategies from the late 1990s to the first decade of the next century. These strategies included the

development of diverse forms of ownership with public ownership in the dominant position, the implementation of the joint stock system in enterprises, and acceleration of state-owned enterprise reform. The joint stock system has been especially advocated as a useful means to separate ownership from management and to help raise the efficiency and productivity of enterprises (*Beijing Review*, October 6, 1997: Documents).

### 3.5 Summary

This chapter has examined the two major aspects of Chinese economic reforms – operational reform and ownership reform. The former has been carried out through a series of reforms at micro- and macro-levels as well as in the resource allocation mechanism of the command economic system, while the latter has been carried out through changes in ideology and policies that encourage and legalise economic entities with various types of ownership and also through changes in SOEs by introducing a shareholding system. The operational reform process has witnessed a shrinkage of the old centralised planning system and an expanded role for the market in the economic system, ranging from determining prices to resource allocation. Meanwhile, the ownership reform has resulted in the rapid growth of enterprises in the non-state sector.

The economic reforms and consequent changes in government roles in enterprise management have all granted real autonomy to enterprises and hence created a considerable impact on enterprise management. This chapter has also detailed the evolution of the management system since the post-Mao reforms and reviewed the fundamental changes in management practices. Although the development of economic reforms has strongly indicated that the Chinese economy has been “growing out of the

plan” and is now concentrated “on the market track” (Naughton, 1996: 8), “the marketisation of the Chinese economy” is far from complete (Dernberger, 1997: 13).

The government’s emphasis on implementing the modern enterprise system, and its strong desire for enterprises to “become corporate entities and competitors adaptable to the market” (*Beijing Review*, October 6, 1997: Documents, 20) have become driving forces for further reform in management practices, especially in the area of HRM. This chapter, through an extant literature review, has met the two objectives raised at the beginning of the chapter by examining the economic reforms and their impact on management in general. The impact of the reforms on HR practices will be outlined in the next chapter.

## **CHAPTER 4**

### **MANAGEMENT OF HUMAN RESOURCES BEFORE AND DURING ECONOMIC REFORM**

#### **4.1 Chapter Objectives**

The transition from a centrally planned command economy to a market-driven economy since the late 1970s in China has resulted in significant changes in the economic system and management practices as discussed in the previous chapter. It also held profound implications for HR practices, which is the focus of this chapter. The chapter has three objectives. First, it compares the pre-reform personnel and labour administration with current HR practices in terms of the categorisation of human resources and the emergence of HRM in China. Second, it systematically examines how employees in the industrial sector were managed before and after the commencement of the reform process with respect to five major HR activities as defined in the West, namely, staffing policies and practices, performance appraisal, compensation and welfare, training and development, and labour relations (Schuler, et al., 1992). The final objective is to discuss the implications of the literature review for further research in Chinese HRM and propose the research questions for this thesis.

#### **4.2 Personnel and Labour Administration versus HRM in China**

To compare traditional personnel and labour administration during Mao's regime with HRM since the reform, this section first reviews the categorisation of human resources



before the reform and their related administrative institutions. Then it looks at the blurring of the distinction between cadres and workers since the reform. The final part focuses on the emergence and development of HRM in the Chinese setting, discussing changes in some concepts used in human resource practices before and during the reforms.

#### **4.2.1 The categorisation of HR and related administrative institutions**

Since the founding of the PRC, human resources in the industrial sector were classified into two groups, cadres and workers. Laaksonen (1988: 154) has argued that the concept of cadre is somewhat ambiguous in the West, because it is usually “connected with the socialist system and its communist and/or equivalent parties”. According to Yabuki (1995: 71), “the broad meaning of cadres is state institution and military ‘civil servants’ while the narrow meaning is persons engaged in ‘certain specified leadership work or management work’ (e.g., organisation cadres and enterprise cadres)”. The formal definition of a cadre from Chinese sources (Zhao & Peng, 1992: 296; Chen, 1990: 301) is that “a person who has formal qualifications (usually above year 12 level), holds a leadership position in an organisation or is engaged in mental work (i.e., science and technology); or a person who has a tertiary education certificate and is working in the public sector regardless of his/her position”. So cadres mainly refer to the administrative staff or white-collar employees such as managers, engineers, and senior technicians in government organisations and in enterprises (Tung, 1982: 140). Cadres were administrated by different institutions from the blue-collar workers and in many situations the two groups were subjected to different rules and regulations.

The separate administrative institutions for cadres and workers were established after 1949 to formulate and issue policies for each group of employees. The institution for cadres was called the Ministry of Personnel, while the Ministry of Labour was for workers. Whereas “personnel” in the West is interchangeable with “people or human resources” (Dessler, 1994: 2), it mainly refers to “cadres” in the PRC, and the personnel system is also known as the “cadre system” (Zhao & Peng, 1992: 293). The Ministry of Personnel was established in 1950, and its name was changed in 1954 to the Personnel Bureau of the State Council, and in 1959 to the Government Organisational Personnel Bureau. The function was abolished during the Cultural Revolution and has been gradually restored since 1972. In 1979 the State Personnel Bureau was formally established, and then merged with the State Labour Bureau in 1982, and finally became the Ministry of Personnel again in 1988 (Zhao & Peng, 1992: 295).

Regardless of the changes in name, the Ministry of Personnel played three major administrative roles, i.e. “entering” (*jing*), “managing” (*guan*) and “leaving” (*chu*) (Chen, 1990: 940). According to Chen, “entering” included recruitment and selection, “managing” covered transfer and promotion, performance assessment, wage and welfare, training and development, while “leaving” referred to resignation and retirement. However, the “entering” of an organisation for a cadre was closely related to the nomenclature system, which meant the cadres, especially those of higher rankings such as factory directors of large-scale state-owned enterprises, were nominated and appointed directly by the Ministry of Personnel (often together with the Organisation Department of the Central Committee of the CPC) rather than recruited and selected from the labour market (Laaksonen, 1988; Naughton, 1996). Cadres at a

lower level could be appointed by the bureau or department of personnel at lower levels (see examples given in Section 3.3.2). While the Ministry of Personnel focused more on macro level management such as policy-making, the personnel bureau or department at subordinate levels (e.g., provincial, municipal, district, and organisational levels) were focused on issues at micro levels, including policy implementation and personnel administration.

The Ministry of Labour was established in November 1949, and in 1970 it was reorganised and renamed as the Labour Bureau of State Planning Revolutionary Committee. In September 1975 the State Council decided to establish the State Labour General Bureau as one of the central government departments under its direct control. This bureau was then restructured and merged with the State Personnel Bureau and other departments in 1982 and became the Ministry of Labour again in 1988 (Xia, 1991: 75-9). The major responsibility of the Ministry of Labour was to formulate policies and regulations for the workforce in urban areas at a macro level, including the general planning of labour allocation, wage scales and welfare distribution, occupational health and safety, labour skills training and education, and management of unemployment (Xia, 1991: 77). The implementation of policies and regulations was carried out by labour departments at provincial, municipal, district or town, and organisational levels.

Because of the categorisation of cadres and workers along with their own distinct administrative institutions, the management of personnel and labour was marked by differences in various HR practices. For example, the pre-reform wage scales were designed separately for cadres and workers, and the criteria for performance appraisal

also differed between them. While the details of these practices are examined in the later parts, the next section looks at how such a classification has become indistinct since the reforms.

#### **4.2.2 Blurring of the classification of cadres and workers**

Since the economic reforms, the Ministry of Personnel and Ministry of Labour are still operating separately, with the former managing all civil servants in the government and heads of large-scale state owned enterprises and the latter still in charge of employees in the industrial sector. However, the distinction between cadres and workers has gradually become blurred for three reasons. The first main reason is the replacement of cadres with civil servants in the government departments after the promulgation of the Regulation of State Civil Servants in August 1993 (Xiao, Y.M. 1994). The Regulation introduced a competition mechanism into the recruitment and selection procedures of civil servants. This gives all applicants the opportunity to participate in a fair and open competition through exams, interviews and background screening before being selected. The implementation of this regulation has seen a steady replacement of old government cadres with new civil servants.

Second, an official speech delivered by the Minister of Personnel in 1994 raised the issue of a gradual elimination of the demarcation between enterprise cadres and workers to establish a new employment system (Fang, 1994). The speech emphasised two-way selection and merit-based appointment to advertised jobs.

A third major reason is the adoption of different types of management responsibility systems during the reform process, which has enabled managers to exercise greater

autonomy in employing competent people for particular job positions. The criterion managers now regard as most crucial in the selection process is the candidates' qualifications including their experience, knowledge, previous achievement, and motivation, rather than their status as cadres or workers (Fang, Gao & Hua 1993). Furthermore, with the comprehensive implementation of the contract system, managers have to specify job positions, corresponding responsibilities and salaries in the contract, and employees are appointed either as managerial or technical staff or production workers. In this situation the previous categorisation of cadres and workers becomes irrelevant (Zheng, 1995). Although white-collar employees are often still referred to as cadres and blue-collar employees as workers, their categorisation as managerial or non-managerial employees has become more widely accepted in practice.

#### **4.2.3 The emergence and development of HRM in China**

With the blurring of classification between cadres and workers, traditional personnel and labour administration has also undergone reform. The three-system reform (*sanxiang zhidu gaige*) launched in the late 1980s is a typical example. It focused on reforms of the labour and personnel system, the wage and welfare system, and the social insurance system (Li, W.Y. 1991; Warner, 1995; Zhao, 1995). Under this reform program, old HR practices have undergone unprecedented changes: the responsibility for labour allocation is being shifted from a centralised planning authority to forecasting and planning departments within enterprises; the contract labour system has been implemented to replace traditional lifetime employment; open competition has started to replace authority-nominated cadre appointment for managerial positions; and production and reward systems are shifting emphasis from egalitarianism to efficiency and performance (Lo, 1997; Naughton, 1996; Shenkar &

Chow, 1989). Cyr and Frost (1991) have also noted that managers in China are already showing an increasing interest in using HR practices, such as compensation and motivational systems, to emphasise productivity at the individual, group, and enterprise level.

Under the reforms of traditional personnel and labour administration, the new term, "human resource management" (HRM, *renli ziyuan guanli* in Chinese) became recognised in China in the mid-1980s (Zhu & Warner, 2000). At that time the State Economic Commission collaborated with many Western institutions to run management courses including MBA programs, and HRM was one of the new topics taught on such programs (Warner, 1992). By the late 1980s more than 15 universities in China had set up MBA courses (Child, 1994) and by the end of 1990s nearly 60 universities had been authorised by the state to run MBA programs. HRM has become a compulsory subject in MBA programs (Liang, 1997; Zhao, 1995). Since the early 1990s the Ministry of Personnel has arranged for senior managers of enterprises to attend HRM training programs in Singapore (Lu et al., 1994) while Nanjing University (a key university in China) has offered its MBA course in Singapore with "HRM in China's industrial enterprises" as one of the core subjects (Zhao, 1995: 3).

In another development, the journal *Labour Economy and Personnel Management* (*laodong jingji yu renshi guanli*) published by Chinese People's University changed its name in January 1994 to *Labour Economy and Human Resource Management* (*laodong jingji yu renli ziyuan guanli*), and has since published many articles discussing HRM in China and abroad. Since the early 1990s more Chinese HRM textbooks written by Chinese scholars have been published to meet the increasing demand of management

students, professionals and practitioners (e.g. Huang, 1994; Liang, 1997; Zhao, 1994, 1995; Zhang & Yan, 1996). Liang (1997) has also observed that HRM has been used more widely in China's foreign-invested enterprises (FIEs) and some large state-owned enterprises (SOEs), and the role of the HR department has shifted more towards attracting, retaining and developing people instead of merely filing and controlling personal archives, and transferring and promoting cadres and workers.

It is important to note that although the term HRM has been commonly used in relevant literature on Chinese management, its Western definition does not readily apply in practice in China (Child, 1994; Warner, 1997). Many personnel and labour managers at the enterprise level were still policy implementers rather than strategic decision-makers, and unlike the situation in the West, were still focused more on administrative activities than organisational management (Child, 1994). Some Chinese researchers have also pointed out barriers to the adoption of HRM in Chinese enterprises, such as the administrative appointment of the head of large state enterprises by the government (the traditional nomenclature system), the lack of systematically designed objective selection criteria and incentives for managers, and a shortage of professional HR managers (Niu, 1996; Wu, 1997; Zhao & Ni, 1997). Warner (1997: 38) believes that in China "people mostly use HRM as a synonym for personnel management". Nevertheless, government officials, researchers and practitioners uniformly regard further reform in HR practices as crucial to the implementation of a modern enterprise system in China's industrial sector (Hong, 1995; Zhao & Ni, 1997; Zheng, 1995). Therefore, regardless of the extent to which HRM is being used to replace traditional practices, the term HRM has flourished in China to demonstrate a move away from traditional personnel and labour administration,

or as Liang (1997: 33) has claimed, at least to show a break from the old concept. This broader sense of HRM is hence used in the thesis.

### **4.3 Staffing Policies and Practices**

The discussion on changes in the role of government with regard to human resource allocation (see Section 3.3.2) revealed one major feature of pre-reform employment policies and practices - centralised labour allocation. Apart from this, the traditional employment policies and practices also had other characteristics that guaranteed Chinese employees jobs for life and cradle-to-grave welfare protection. These old practices were challenged during the reforms and have since undergone remarkable changes. This section examines traditional employment policies and practices and then reflects on changes that have occurred in this area since the reforms.

#### **4.3.1 Traditional staffing policies and practices**

Planning was the dominant control mechanism during Mao's regime with the market serving only a supplementary role. Industrial enterprises were under the control of government institutions at the relevant level according to their ownership, size, and industry. The staffing or employment policies and practices in the Chinese industrial sector were characterised by four major features, full employment; lifetime tenure; low labour mobility and centralised labour allocation (Child, 1994; Warner, 1995; Xia & Dang, 1991; Yu & Xin, 1994; Zhang, 1991). The first three features are discussed below (the last feature was addressed in Section 3.3.2).



*Full employment* was regarded as a marker of socialism's superiority over capitalism. Like most other state socialist economies, China pursued a low-wage full employment strategy (Howard, 1991), as it was assumed that unemployment did not exist under socialism, and the government should make efforts to expand employment and create jobs for its people (Yabuki, 1995). The definition of socialism in Marxist and Maoist theory is "equal to public ownership of productive means plus the principle of full employment" (Shen, 1996: 77). Guided by this ideology, the workers (or working class) became owners or masters of society and productive means, and they had the right to work. This right, as Korzec notes, was "one of the main sources of legitimacy of state socialism" (1988: 117). Lee (1987) has pointed out that the Party has always pledged to protect the employment rights of the working class, and the state was obliged to arrange jobs for the workers. Full employment made socialism superior, and unemployment was a social phenomenon unique to the capitalist system (Nyaw, 1995; Zhang, Z.J. 1994). Yao (1992: 160-71) has noted that in the late 1930s, the Soviet Union announced it had achieved zero unemployment and claimed that only socialism could satisfy the people's need for employment. Under the great influence of the Soviet Union's experience and ideology, China placed a high priority on full employment since the establishment of the PRC (Minami, 1994; Yabuki, 1995).

This ideological commitment to full employment was implemented regardless of its impact on efficiency and productivity (Lee, 1987). By expanding production in the early 1950s, enough jobs were created to absorb the 4 million who had been unemployed under the old regime and a large number of new labour force entrants (Yue, 1985). In August 1952, the central government issued a decree which required enterprises to be responsible for surplus labour resulting from managerial reforms or

improvements in labour productivity, and prohibited enterprises from dismissing workers (Lee, 1987). This guarantee of employment facilitated an increase in employment in the urban industrial sector. By the end of China's first five-year plan (1953-57), most unemployed people were allocated by the government and the total urban working population increased from 8 million in the early 1950s to 24 million in 1956 (Zhang, 1991). In the 1970s and early 1980s, the urban labour force were rising by 3 to 4 million a year (Yue, 1985). The rate of increase continued until enterprise reforms started in the mid-1980s. Howard has observed that "one of the ways full employment has been achieved has been the utilisation of cheap and inferior technologies and labour-intensive methods of production" (1991: 94). The government's endeavour to have full employment actually "led to over employment and to a belief that it was acceptable to ignore labour productivity" (Yabuki, 1995: 77).

The second feature of the employment practices, *lifetime tenure*, led to "iron rice bowl" and "iron post" practices. The pre-reform employment system not only favoured full employment and centralised labour allocation policies, but also adopted the concept of "the worker's inalienable right to his job and other related benefits" (Lee, 1987: 33). Before the implementation of a 'labour contract system' in the 1990s, over 80% of employees in state-owned enterprises (approximately 80 million) enjoyed job security, and this figure was even higher in heavy industries such as mining (Yu & Xin, 1994; Zhang, 1991). While workers were guaranteed secure jobs (iron rice bowls), cadres enjoyed lifetime tenure in their positions, known as 'iron posts' (Tung, 1982; Saich, 1986). As described by Walder (1986) in his analysis of employment in communist regimes:

Employment is not primarily a market relationship..., employment does not fluctuate according to the firm's demand for labour, nor does the firm's demand

fluctuate with changes in demand for its products.... Employment plays a welfare role: it is a value in itself. The management orientation to labour is, therefore, to retain it as a fixed element of production in excess of current need (p. 11).

Industrial enterprises in the PRC thus carried the heavy financial burden of costs such as accommodation, medical treatment, childcare, and pensions (Zhu & Dowling, 1994). As a result, Chinese employees viewed their enterprise more as a social unit than a productive unit (Korzec, 1988). This lifetime employment system was fundamentally different from systems in other countries in the region, especially Japan. While in Japan the company offered jobs to its employees, in China it was the state that made such an offer. In the event of an enterprise-shutdown, the state would still be obliged to provide its employees with full-time employment (Dang, 1991). So the state implicitly guaranteed continuation of employment “unless one is disqualified by criminal or political actions” (Tausky, 1991: 100).

Although some other work-patterns, such as contract and casual employment, were considered and even adopted in China, they did not survive the series of political changes. As Lee has noted, the Party policy “neither tolerated the temporary worker system, nor permitted the hiring of workers on a temporary basis for any type of permanent job” (1987: 33). In adopting the Soviet Union’s labour management practices, the state introduced a contractual labour system in 1957 and in 1958, when Liu Shaoqi proposed a two-track employment structure, with permanent and temporary contract labour (Child, 1994; Howard, 1991; Jackson, 1988; Yu & Xin, 1994). The government also issued a policy that endorsed “employing more contract rather than full-time and lifetime workers” (Zhang, 1991: 37).

This initiative, however, was interrupted by the Great Leap Forward movement (1958-1960). In the early 1960s, organisations were urged to adopt the two-track employment system suggested by Liu Shaoqi, who also recommended that the job tenure system should be phased out by universalising the labour contract system for all new employees (Howard, 1991). However, Liu's system was only implemented on a trial basis before it was terminated and criticised as a capitalist employment practice during the period of the so-called 'Cultural Revolution' (1966-76). In November 1971, the State Council announced a policy to "grant residence permits and permanent worker status to the thirteen million rural contract workers employed in urban state-owned enterprises" (Howard, 1991: 96). From then until the mid-1980s, the lifetime guarantee of full time employment became one of the principal work practices in Chinese industries (Yu & Xin, 1994).

The third main feature was "an extreme *lack of labour mobility*" in the employment system (Howard, 1991: 94). This labour market rigidity deprived managers of the right to fire or layoff unqualified or redundant employees, and also deprived employees of the right to quit or transfer jobs, locking them into a stifling dependent relationship with their organisations (Walder, 1986). This rigidity resulted in a mismatch of employees' skills and jobs, and surplus labour resources in enterprises (Chan, 1990; Nelson & Reeder, 1985; Nyaw, 1995). Employees, especially young graduates, were always told to sacrifice personal preferences for the needs of the Party, of the nation and of the people, and to work wherever the Party assigned them (Shen, 1996; Wang, 1989). Employees were expected to remain with their jobs whether they liked them or not - like 'cogs in a machine'. The slogan of 'cog spirit' (*luosiding jingshen*) was

prevalent before the reforms and served as an ideological justification for low labour mobility.

The main contributing factors towards low labour mobility were the expense of the social welfare function of enterprises, the inflexibility of various enterprise ownership rules, and the household registration system<sup>13</sup> (e.g., Chow; 1994, Dixon, 1981; Holton, 1990; Romich, 1994). Rural-urban migration was officially prohibited in the late 1950s (Porket, 1995) and an employee from a collectively or privately owned enterprise could not be transferred to a state-owned enterprise. Although the reverse was possible, the employee would then have to give up the benefits of the iron rice bowl, including a secure job, a salary that was usually higher than the same position in enterprises with other forms of ownership, and other benefits such as accommodation and a pension. Job transfers for family reunions or other personal reasons were officially possible, but permission was usually difficult to obtain (Nyaw, 1995), especially if a job transfer required movement from a small city to a large city. Therefore, job mobility was mainly impeded either by the need to surrender welfare benefits when changing jobs or by complicated and bureaucratic migration procedures and restrictions (Maurer-Fazio, 1995; Walder, 1986). Nelson and Reeder observed that “approximately 90% of the workforce works at the same work station or ‘post’ in the same workshop in the same factory from the time he is hired until the time he retires” (1985: 21).

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<sup>13</sup> In 1954 China established a Household Registration System to divide the population into agricultural and non-agricultural sectors. This system required all residents to register with their neighbourhood police station. Without proper registration a person had no access to the daily consumer necessities provided by the State. This system was effective in controlling migration to the cities (Romich, 1994: 451).

In summary, the traditional employment practices guaranteed that urban job seekers would belong to a *danwei* with an iron rice bowl, but this guarantee in turn seriously undermined Chinese industry by contributing to problems such as overstaffing and low productivity. It has been reported that in 1993, 3 million employees in state-owned enterprises were made redundant, in 1994 the number was 4.5 million (Yang, 1995), and in 1996 it was 6 million (Yue, 1997). The problem of overstaffing has become one of the major reasons for the steady decline of enterprise productivity rates from an already low base (Zhu & Dowling, 1994). A study conducted by the Chinese Academy of Social Sciences in the early 1990s indicated that the productivity of automobile manufacturers was 1.5 cars per year per worker in China's First and Second Automobile Manufacturing Companies, which presented a stark contrast to the rate of approximately 50 cars per year per worker at Ford in the USA (Liu, 1994). Low productivity is one of the main reasons that 40% of state-owned enterprises are making losses (Wang, 1995). Finding solutions to these problems has become the driving force for reform in the employment system including its policies and practices, which is discussed in the following section.

#### **4.3.2 Changes in the old employment system during economic transition**

Since the late 1970s, China's reforms "have unleashed a process of growth and institutional change that has moved its vast economy to the brink of a market system" (Rawski, 1995: 1172). Driven by a socialist market economy, the pre-reform employment system has been challenged and subsequently experienced radical changes, including the implementation of two-way job selection rather than central allocation (see Section 3.3.2), the move away from a policy of full employment, the adoption of the labour contract to help break the iron rice-bowl, the emergence of a

free labour market and the launch of a re-employment project. Because of these changes, enterprises and individual employees have been given some autonomy in their employment. This section will discuss these changes to demonstrate the transition of employment practices from being highly centralised and unified to being decentralised and market-driven.

The first major change was the acceptance of the concept of unemployment (*shiye*) rather than ‘waiting for employment’ (*daiye*). Before 1992 there was no official recognition of the concept of unemployment in China (Shen, 1996). It was only after the CPC’s 14<sup>th</sup> Congress held in 1992 that the word “unemployment” rather than “waiting for jobs” was officially adopted in government documents (Zhang, Z.J. 1994: 43). While formally acknowledging that unemployment does exist, the government is still aiming for full employment. Table 4-1 shows the number of unemployed people and the unemployment rate between 1986 and 1995 (*Yearbook of Labour Statistics of China*, 1995).

**Table 4-1 Unemployment and Unemployment Rate in China (1986-95)**

Year	86	87	88	89	90
Number *	.644	2.77	2.96	3.77	3.83
%	2.0	2.0	2.0	2.6	2.5

Year	91	92	93	94	95
Number *	3.52	3.60	4.20	4.77	5.20
%	2.3	2.3	2.6	2.8	2.9

Note: Number\* - 1.0 = 1 million  
Source: *Yearbook of Labour Statistics of China*, 1995

Table 4-1 indicates that the unemployment rate has been very low (less than 3%<sup>14</sup>) for over 10 years. However, the data has many limitations and fails to display the real situation (Feng, 1996; SASS, 1995). First, the data only includes the unemployed in urban areas rather than rural regions, even though it has been estimated that about 120 million farmers had become redundant by the mid-1990s (Jia & Men, 1997). Second, the data only includes the unemployed who have no attachment to a work unit or enterprise, and excludes those who are redundant but still on the payroll of an enterprise (this problem is known as ‘stepping down from the post and waiting for a job’ or *xiagang daiye*). Finally, unemployed people who have not formally registered in the government Unemployment Insurance Office would not be included in these figures. Therefore, the unemployment rate in China would be much higher had these limitations been considered. Chen (K. 1995) has estimated that the urban unemployment rate in 1992 would have been at least 15% if enterprises had been allowed to release their surplus workers.

Behind the apparently low unemployment rate is a highly disguised or hidden unemployment figure which is the legacy of pre-reform employment ideology and practices (Porket, 1995). China now faces a stark trade-off between modernisation and full employment (Minami, 1994). It would appear that the modernisation process is well underway. In 1995 over 40,000 state enterprises reformed their systems “to keep them in line with the emerging market economy, affecting 15 million workers [who would become redundant]” (*Beijing Review*, August 29, 1995: 4). Although it will take time for China to establish a comprehensive social security system to accommodate

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<sup>14</sup> The unemployment rate was set at 4 percent for the ninth five-year plan (1996-2000) (Yue, 1997).



retrenched employees, the recognition of unemployment as a political and social reality is an important first step.

The adoption of the contract system instead of permanent employment is another important change. In 1986, the State Council issued four sets of temporary regulations concerning the labour contract system itself: employment procedures, labour insurance and labour discipline, and the right to fire employees. With these regulations in place, from 1<sup>st</sup> October 1986 all newly employed workers in the state sector were contracted rather than permanent, unlike the past years (Howard, 1991; Korzec, 1988; Riskin, 1987). The contract system initially stipulated that all new state employees be hired on the basis of 3- to 5-year contracts, at the end of which either party could terminate the arrangement (Maurer-Fazio, 1995). It was further clarified in a government policy issued in 1992 ('Regulations of Transforming Operating Mechanism on State-owned Enterprises'), that required a labour contract to specify the terms and conditions of employment, and the rights and responsibilities of workers and employers (Yang & Wu, 1993). The contract can be signed by an individual or on a collective basis, and the contract period may be specified or unspecified, depending on the nature of the job (see Nyaw, 1995: 194). By 1996, the labour contract system had become compulsory in both public and private sectors, including for managers at different levels (Branine, 1997).

The introduction of the labour contract system was the most significant aspect of the labour reform because it revoked the long-standing tradition of lifetime employment and increased the authority and autonomy of enterprise managers in relation to both the government bodies and enterprise workforce (Branine, 1997; Howard, 1991). The

legislation clarified that the employment of employees lies with their enterprise rather than with the state (Dang, 1991). This made it possible, in theory at least, for both workers and managers to be free to select each other (Warner, 1995). The contract system has facilitated the adoption of other employment categories, such as part time jobs, casual, seasonal and hourly based work, as well as flexible working time (Child, 1994; Yang, 1995). It has been suggested that Chinese enterprises should consider establishing a core group of competent employees who would be offered longer term contracts or job security, with casual labourers employed during times of increased demand, so as to obtain a stable workforce while satisfying excess demand without sacrificing their cost structure or employment policies (Qin, 1995).

Some researchers (e.g., Howard, 1991; Howe, 1992) have argued that the contract system has not really eliminated or reduced job security, as many contracts would be renewed automatically except in the case of a serious infraction of labour discipline. Warner has also pointed out that individual labour contracts were “mainly to clarify the nature of tasks given to workers and their rights in work as well as the responsibilities of employers” (1996b: 41). However, labour contracts indicate a crack in the traditional iron rice bowl employment system, and represent a move away from the institutionalised Marxian world of a right to work and lifetime employment towards “an economy characterised, in greater part, by market and hence contractual arrangements” (Korzec, 1992: 26).

Third, the emergence of a labour market and subsequent high labour mobility is another major change in employment practices. It was not until October 1987 at the CPC’s 13<sup>th</sup> Congress that the government officially announced that labour mobility

should be encouraged and the individual's discretion to select a job should be respected (Zhao, 1994). This legislation was aimed at promoting job mobility, or at least lessening impediments to job transfers. As a result, personnel exchange and service centres were set up in many cities by the government, which sponsored personnel exchange negotiations and career development programs, and provided information on job opportunities. In 1992, over 1 million technical and managerial personnel registered at local personnel exchange centres (Huang, 1993). In 1993, 5 million, or 3.4% of the urban workforce changed jobs or resigned to find better employment on their own (Lu, H. 1994). It was reported that in FIEs and private-owned enterprises (POEs), more than 70% of their skilled employees and managerial staff came from SOEs, who were attracted by better payment and benefits and the opportunity to demonstrate their abilities (Zhao, 1998). This increased labour mobility indicates the emergence of a labour market that would not have been possible during Mao's regime. Until the mid-1980s, it was the official view in China that under socialism, labour was not a commodity to be bought and sold, and hence there was no basis for the existence of a labour market (Chen, K. 1995; Hsu, 1991; Minami, 1994; Porket, 1995). The price for the creation of a labour market, according to Korzec (1988), was a retreat from the commitment to full employment, since full employment and a labour market are incompatible.

Along with the development of a free market economy, the attitudes of the surplus labour force have slowly undergone changes from depending heavily on government or enterprises to independently entering the labour market for other possible jobs (Tao, 1994). A study conducted by the Shanghai Academy of Social Sciences on the re-employment situation of redundant employees found that 65% of 1841 redundant

employees surveyed in 1988 admitted that they would simply wait for their enterprises or the government to find jobs for them. However, in 1994 the follow-up study revealed that 61% of 950 surplus employees surveyed would go to the labour market to look for jobs by themselves without waiting for enterprises or the government (Tao, 1994). This change in attitude demonstrates that the traditional and ingrained concept of job security can be changed with the establishment of a free labour market and a flexible work pattern.

Chinese workers can now move more easily from one enterprise to another given that enterprises no longer have the same tight control over an employee's personal file (*dang'an*) as they did before. The personal file was usually held by an enterprise for the purpose of keeping an employee's personal data, political history and performance records. Before the enterprise reform an employee could not leave an enterprise without obtaining official permission to transfer his/her personal file to another enterprise. With the introduction of a contract system, the personal file is no longer an obstacle to labour mobility, because it has become increasingly irrelevant to many enterprises. However, Chinese workers are not likely to enjoy more geographical mobility than before because of residential restrictions and enterprise-specific housing, pensions, and medical benefits (Korzec, 1988; Maurer-Fazio, 1995). It is likely that reforms in housing and welfare and further relaxation of the household registration system will be necessary to further develop the free labour market (Chen, K. 1995; Romich, 1994).

The final change is the launch of a re-employment project (*zaijiuye gongcheng*) that has retained some characteristics of lifetime employment and has occurred mainly in

SOEs. This is not only because over 60% of state revenue derives from SOEs and two-thirds of employees in cities and towns work in these enterprises, but also because it is mainly the SOEs that have sheltered “an army of redundant but tenured workers” (Rawski, 1995: 1150) and suffered from poor productivity. Since the reforms, soft budget allocations of unlimited state support for SOEs making losses (see Kornai, 1980, 1986; Walder, 1986: 28) have been substantially reduced, and SOEs have been forced to rely on the market for survival rather than on the state (Rawski, 1995). The State Economic and Trade Commission Minister, Wang Zhongyu, stated at the 15<sup>th</sup> CPC’s Congress in 1997 that the government would follow the principle of survival of the fittest and reduce the number of wholly owned state companies from 130,000 to 512 (*Washington Post*, 16 September 1997).

As the government strengthens the enterprise reform by pushing more SOEs into the market, many surplus employees will be laid off. In April 1993 the government issued a document on the “Regulation for Reallocating Redundant Employees in State-owned Enterprises”, which specified that surplus employees would be primarily reallocated by SOEs with some financial assistance from the government to maintain the basic living standard of these employees (Zhao, C. 1995). This Regulation sparked a nationwide re-employment project in 1995. The issue of re-employing retrenched employees was emphasised by Premier Li in his 1997 government report when he asked enterprises to “assist the redundant workers in finding placement in other trades and assist those who are laid off in finding new jobs” (*Beijing Review*, April 6, 1997: 9). It was reported that by the end of 1997 China had set up 1,333 re-employment service centres that assisted 8.63 million retrenched employees to find jobs (Wang, Y.P. 1998: 56). According to the Minister of Labour, Li Boyong, the first priority of

the Ministry of Labour in 1998 was to continue this project with an aim to re-employ 60% of those layoffs (Hai, 1998: 32).

The pressure placed on enterprises, especially SOEs, to keep their surplus workforce or absorb redundant employees internally strongly indicates the legacy of a command economy where enterprises had to follow government's instructions. Although employment practices have been decentralised since the reforms, the question remains whether enterprises can really hire and fire people at their discretion based on economic rather than political or social factors. Child (1994) has observed that as China claimed to be a socialist market economy, the government officials often played an active role in the decision-making process, and managers' decisions were usually affected by both social and economic factors. Furthermore, an incomplete social security system, lack of comprehensive government support for economic development in the non-state sector, and the low skill base of many employees have all contributed to the slow progress of reform in the SOE sector (Xu, 1997; Yao, 1998).

#### **4.4 Performance Appraisal**

While the iron rice bowl (lifetime employment) and iron post (tenured position for cadres) practices were created by the pre-reform employment system, they were reinforced by an ineffective performance appraisal system in the industrial enterprises. Therefore, in the transition of employment practices from high centralisation to merit-orientation, performance appraisal has also changed since the reforms. To understand such changes, the following two sections reviews the conduct of performance appraisal

during Mao's regime, the purposes that appraisal used to serve, and reforms to the old appraisal system since the 1980s.

#### **4.4.1 Political-oriented performance appraisal**

Performance appraisal has been described as "the process of identifying, observing, measuring, and developing human performance in organisations" (Cardy & Dobbins, 1994: 1). Along with other HR practices such as recruitment and selection, and reward systems, performance appraisal is an integral part of modern Western management systems (Von Glinow & Teagarden, 1988) and is currently used in the majority of large Western companies (Lindholm, Tahvanainen & Bjorkman, 1999). In its broad sense, performance appraisal aims to assist improvement in three areas within an enterprise: administration, development, and communication (Butler, Ferris & Napier, 1991; Cleveland, Murphy & Williams, 1989). In contrast to the West, performance appraisal during Mao's regime was more commonly used for cadres than for workers, and practiced more in large and medium-sized SOEs that had a "consistent set of personnel practices" (Zhao, 1994: 7). Performance appraisal was mainly used to assist administrative tasks such as job transfer, promotion, rewards or welfare.

Cadres' performance appraisal was conducted by the personnel department that kept their personal files. However, leading cadres who were Party members were also under the control of the Organisation Department of the Central Committee (ODCC) of the CPC. Many policies and regulations regarding the management of cadres were issued by the ODCC, which illustrates the direct control of the Party over its cadres. In November 1949 (one month after the PRC was founded), the ODCC issued 'The Regulation on the Performance Appraisal of Cadres'. In 1964 the ODCC circulated

‘The Report on the Draft of Administration Work of Technical and Scientific Cadres’, specifying the regulations for appraising the performance of cadres who were generally engaged in technical, scientific or other professional work. These technical cadres could be Party members as well (Zhao, 1986). To complement the regulations for performance appraisal, the State Council issued policies for cadres’ rewards and reprimands in 1952 (the first draft) and then in 1957 to specify how cadres would be rewarded or penalised depending on their performance. Thus performance appraisal became a key component of cadre management (Han, 1992; Liu, 1987; Su & Zhu, 1992).

The basis for cadre appraisal relied heavily on political loyalty and seniority (Su & Zhu, 1992; Young, 1989), while ideological “purity” and activeness were especially emphasised during political movements in China (Laaksonen, 1988: 14). Although Mao emphasised that cadres should be both ‘red’ (politically and ideologically sound) and ‘expert’ (technically competent), the dual criteria were difficult to apply. First, there was no objective benchmark to measure ‘redness’. Second, the weight given to each criterion fluctuated during political and ideological upheavals, such as the Great Leap Forward and the Cultural Revolution, when political factors were ranked higher than technical considerations in work evaluation (Howe, 1973; Tung, 1982; Schurmann, 1968).

The appraisal of cadres was mainly conducted for the purpose of promotion or transfer. However, all significant managerial posts, especially those in medium and large-sized enterprises, were directly controlled by the Party and government through the nomenclature system. That is, the appointment, promotion, and dismissal of cadres



at these posts were often determined by the Party (represented by the ODCC and its branches at lower levels) through the personnel department (see Naughton, 1996; and Schurmann, 1968; for details). This inevitably increased the Party's control over cadres and encouraged cadres to be politically sound rather than technically competent.

The appraisal was usually conducted annually by the personnel department of the cadre's enterprise. Each cadre would be given an appraisal form that was divided into three parts: self-evaluation, peer group opinions and assessment by the head of the department in which the cadre worked. For senior cadres, it was common to gather "mass opinions" from a wide sample of employees (the ratio could be one cadre to twenty or even forty colleagues or staff) to strive for a democratic evaluation (Easterby-Smith, Malina & Yuan, 1995: 45). Appraisal in the form of a narrative essay was adopted. Burns (1989) notes that this kind of appraisal is mainly a "superior-rating-subordinate" type of system, which lacks specified criteria and other appraisal techniques commonly used in Western market economies such as a two-way communication. These deficiencies increased the subjectivity of the appraisal process.

Performance appraisal for blue-collar workers was conducted in a much more informal and subjective way with emphasis placed on one's *biao-xian*. *Biao-xian* refers to the "broad and vaguely defined realm of behaviour and attitudes subject to leadership evaluation - behaviour that indicates underlying attitudes, orientations, and loyalties worthy of reward" (Walder, 1986: 132). A worker's performance level depended on his/her *biao-xian*, which was usually discussed by one's group members and then decided by both the production leader and Party representative or secretary of the

group (Walder, 1986). As peers and leaders would make judgement based on their subjective impressions of one's day to day job performance and co-operation demonstrated, personal relationships with colleagues, especially with the leaders, became the key to getting a good *biao-xian* (Brown & Branine, 1995; Walder, 1986). Such appraisals were characterised by vagueness, being open to individual interpretation and its domination by political ideology.

Schuler and Harris (1991) believe that when reviews are highly qualitative, the potential for favouritism exists, or at least the perception of it. Bernardo (1977) notes that in Chinese industry, three criteria (seniority, skill and political attitude) were constantly used for evaluation of workers' performance. He has also explained that it was difficult to specify how appraisers applied these criteria and how they weighed the importance of each criterion due to the subjectivity of the evaluation process. Thus the effectiveness of such an assessment process is questionable.

The purpose of workers' performance assessment was primarily for job promotions, transfers, distribution of welfare benefits such as housing or having a holiday at the trade union's sanatorium, and selection of 'model workers' (Henley & Nyaw, 1987; Walder, 1986). It was difficult to link individual performance to compensation due to the vagueness of performance assessment criteria. For example, in the 1977 national wage adjustment, the government stated that "eligibility was to be based on four criteria: political behaviour, work attitude, work performance and technical skills" (Jackson, 1992: 165; also see Li, W.Y. 1991: 193). However, people found that it was "hard to weigh political considerations against work performance, and workers themselves had different perceptions of fairness. ...[so] the easy way out was seniority"

(Jackson, 1992: 166). This non-performance-linked wage practice indicated defects in the appraisal system. Performance appraisals for both cadres and workers were totally abandoned during the ten chaotic years (1966 - 1976) of the Cultural Revolution, and have been restored since the reforms (Su & Zhu, 1992; Zhao, 1995).

#### **4.4.2 Performance appraisal for breaking ‘iron practices’**

Shortly after the commencement of the economic reforms in late 1978, the ODCC issued the ‘Suggestion for Implementing the Cadre Performance Appraisal System’ in November 1979. This document declared the significance of establishing a formal performance appraisal system for cadres with five major reasons. First, it could identify cadres' training needs, especially from the professional perspective, to increase their competency for building socialism. Second, it could distinguish between good and bad performers and assist with decision making in promotions. Third, it could help implement the socialist principle of distribution (i.e., from each according to his/her ability, and to each according to his/her work). The identification of high and low performers through performance appraisal would encourage the former and motivate the latter. Fourth, it could help to break the iron rice bowls, as cadres would be rewarded or punished, and promoted or demoted on the basis of performance evaluations. Finally, subordinates could evaluate their leaders in the appraisal process to reduce the superior's domination and put cadres under workers' supervision as well (Su & Zhu, 1992: 157). This document was an important signal for the abolishment of the iron posts of cadres.

The appraisal criteria for cadres currently used in China cover four broad areas known as: ‘good moral practice’ (*de*), ‘adequate competence’ (*neng*), ‘positive working

attitude' (*qing*), and 'strong performance record' (*jie*) (Child, 1994; also see Brown & Branine, 1995; Burns, 1989; Han, 1992; Zhao, 1986). Cadres receive a grade of excellent, good, pass or poor on each criterion. Good moral practice (*de*) means virtue or moral integrity, which evaluates whether the cadre is politically in step with the Party, and whether the cadre carries out government orders and regulations. *De* has always been listed on the top of a cadre's appraisal sheet, since Mao's regime (Child, 1994). Fung comments that "Chairman Mao's slogan *Red versus Expert* emphasised the value of political activity over business performance" (1995: 173). While Mao Zedong advocated "Be both *red* (politically reliable) and *expert* (professionally competent)", Deng Xiaoping stated that "*Red* does not mean *expert*; however, to be *expert* must be *red*" (Chen, 1990: 352).

Adequate competence (*neng*) covers three main aspects: educational background; ability in leadership, management, organisation, negotiation, planning, forecasting, and decision-making; and physical status, which also includes age. Since the 12<sup>th</sup> National Congress of the CPC in 1982, the criteria for selecting and promoting cadres has been shifted from pure political ideology and seniority to youth, knowledge, education and managerial capability. Thus *neng* has become more strongly emphasised than before (Zhao, 1986).

Positive working attitude (*qing*) refers to diligence and usually assesses attendance at work, discipline, initiative, and sense of responsibility. The final area, strong performance record (*jie*), serves to evaluate the cadre's work efficiency, including the quality and quantity of output as well as other contributions made to the enterprise. The last two criteria have been given particular attention since the economic reforms.

In the old system of the iron rice bowl and the iron post, cadres could keep their positions or be promoted irrespective of their working attitude and achievement. However, under the market-driven economy, production and reward systems are changing, placing less emphasis on egalitarianism and a stronger emphasis on efficiency and performance (Shenkar & Chow, 1989). As a result, performance appraisal has become the crucial link between performance and rewards, and achievement has been given high priority in appraisals.

Since the reforms, different assessment methods for cadres have been adopted (Chen, 1990; Su & Zhu, 1992). One approach is a computer-aided panel assessment (*Ceping Kaohe*). The panel draws up more detailed categories under each of the four major criteria (i.e., *de*, *neng*, *qing* and *jie*) and gives a weighting to each category. For example, the criterion of *de* is categorised into knowledge of Marxism and Leninism, understanding of state policies, ideology and commitment to work. Each item may receive different weights according to the enterprise's focus. Panel members then allocate marks individually to appraisees according to their performance. All the marks will then be entered into a computer to obtain final assessment results. This method aims to quantify performance criteria and improve the credibility of performance appraisal.

Another approach often used for performance appraisal is position-related yearly assessment (*Gangwei Niandu Kaohe*), which is more results-oriented. It is mainly based on a cadre's job description and objectives set at either the time of appointment or the beginning of each year, including the quantity and quality of work and task fulfilment. These two methods of performance appraisal require detailed criteria to

reduce subjectivity and informality as observed in traditional performance appraisal. However, the old methods of assessing cadres, such as “superior-evaluating-subordinate” (*Lingdao Kaohe*) and comprehensive qualitative evaluation (*Zonghe Jianding*, i.e. self-assessment first, then peer group discussion and superior's final comments) are still being used by many organisations (Su & Zhu, 1992), especially top-down appraisal, which will be further discussed in a later section.

While there have been new approaches to assessing cadres, performance appraisal for shop-floor workers has also been developed and become more widely used in enterprises since 1978. In 1979, during the national wage adjustment, criteria for wage promotion were changed to “work contribution, technical level and work attitude” and each criterion was more quantified (Jackson, 1992: 167). The vague political criterion was deleted from the list in 1979. However, after the Tiananmen Incident in mid-1989, the emphasis was again shifted to political attitude. In June 1990, “The Regulation on Workers’ Performance Appraisal” was approved by the State Council and issued by the Ministry of Labour in July 1990. This Regulation pertains to the public sector and SOEs, and specifies the type, content, method and management of appraisals (Lu & An, 1991; Xia, 1991). The first article of the Regulation states that the major reason for conducting appraisal is “to assess workers’ ideological and political *biao-xian* (attitudes and behaviours) as well as work achievements, and to determine the technical level reached by the worker, and to raise workers’ initiative to build a socialist country” (see Zhao, 1995: 436).

China's industrial enterprises have experimented with different assessment methods since the reform began (Zhao, 1995). In one of the methods, appraisal is carried out

through 'position specification'. Each job position has detailed specifications, which include quality control, technical requirements, quantified work loads, tools and machine maintenance, labour discipline, caring for the working environment, team co-operation, and work safety. Zhao (1995) chose one high performing enterprise as an example to illustrate how this system works. In this enterprise, quality control requires workers to self-check their own products, grade them according to quality and stamp their working number on them. Meanwhile, the quality inspector checks products on a regular basis before they enter the storeroom. If a quality problem is detected, the relevant worker would be identified, the reason for the problem investigated and a prevention method recommended. All of these processes are documented as part of the performance appraisal process.

In this enterprise, labour discipline has been specified and incorporated into a 'position specification' for performance appraisal. This involved a set of rules which included 'two-must and five-forbidden'. This means that the work of each shift must be started and must be completed according to a planned schedule, and five things are banned while working - reading, eating, chatting, being idle and leaving one's work position without permission (Qu, 1991: 35). The adoption of a 'position specification' based on the principles of scientific management for performance appraisal clearly indicates a radical change in China's enterprise management. Before the economic reforms, scientific management was criticised for allowing capitalists to exploit workers, but now it is regarded as an effective technique to break the 'big rice pot' (the practice of egalitarianism, where compensation is not linked to one's performance) and help managers increase productivity (Zhao, 1994).

A second method, called 'management by objectives', is common in Western market economies but quite new in China's enterprises. Performance appraisal is conducted within each work group, where each individual has specific objectives to complete. Another method is 'internal subcontracting' where the enterprise obtains a contract from the state, and then the project or production work is subcontracted to its internal departments or business units. Each unit is accountable for its profits or losses and the employees are appraised within such units mainly for compensation purposes.

These appraisal methods all aim to break the old practice of 'eating from the big rice pot' which did not distinguish between high and low performers and did not link performance to rewards. However, the various methods still suffer from flaws such as the emphasis given to political considerations, inconsistency in measurement, subjectivity, static rather than forward-looking attitudes and a lack of communication (see Brown & Branine, 1995; Huang, 1994; Nyaw, 1995). They often serve an evaluative rather than developmental or communication purpose.

Recently, a new method for performance appraisal was suggested by Peng, Bao and Wu (Zhao, 1995), which requires the development of a human resource information system (HRIS) within the enterprise, a behaviour control and motivation system and a strong link between performance and rewards. A HRIS could offer detailed information such as a job description and job specification for each position, and thus provide each jobholder with a clear understanding of work requirements and appraisal criteria. Employees are evaluated in terms of their achievement, working attitude and potential ability for promotion. The result of performance appraisal is then directly linked to individual rewards and compensation. This new method endeavours to



achieve both evaluative and developmental purposes, and is linked closely to the job position rather than the classification as cadres or workers.

Currently, the extension of labour contracts to the whole workforce has offered a more realistic basis for conducting performance appraisal in enterprises. According to the Labour Law of the PRC (henceforth referred to as the Labour Law), “a labour contract is the agreement reached between a labourer and an employing unit for the establishment of the labour relationship and the definition of the rights, interests and obligations of each party” (1994: Article 16). The renewal of contractual employment “depends on employees’ performance and/or the enterprise’s need for their service” (Child, 1994: 165). Up to May 1996, 88.7% (95.66 million) of enterprise employees had signed labour contracts compared to 31% (35 million) in 1993 (Liu, 1996). Labour contracts with workers, as noted by Warner (1995: 131), “were more matter of fact and were restricted to mutual obligations *vis-a-vis* a set of defined expectations”, such as production targets and payment. The requirements specified in the contract could supply basic criteria for performance appraisal and help enhance the appraisal’s validity.

Researchers have reported that Western style performance appraisal has been used in many FIEs in China (e.g., Child, 1994; Child & Marckoczy, 1993; Lindholm et al., 1999; Geringer & Frayne, 1990). According to the ‘Regulations for the Implementation of the Law of the PRC on Sino-Foreign Joint Ventures’ promulgated in 1983, FIE wage and bonus systems should adhere to the principles of ‘to each according to his/her work’ and ‘more pay for more work’ (Article 39). This has facilitated the adoption of the Western-style reward system that relies more on

performance than on age, length of service or political ideology as found in most Chinese enterprises (Child & Lu, 1996). Fung (1995: 212) reported that Chinese employees “regard the concept of 'pay for performance' as important for efficient organisation”. When visiting some FIEs in China between 1994 and 1995, the researcher (author) noticed that these FIEs all conducted performance appraisal on either a yearly or quarterly basis. The criteria used included knowledge of the job, quantity and quality of work, and managerial skills. However, the results of performance appraisal were used more for administrative purposes to break traditional 'iron practices', such as the distribution of a bonus, than for communication and development (Zhu & Dowling, 1998).

In summary, the politically oriented performance appraisal used before the reforms failed to distinguish between high and low performers in the industrial sector, which not only facilitated practices such as the iron rice bowl and the iron post, but also an iron wage system (guaranteed wage payment regardless of performance). In order to break these iron practices, a more performance related appraisal system has been tried and developed since the reforms. The changes in performance appraisal, in turn, have assisted a radical reform in China's compensation system, which is discussed in more detail in the next section.

#### **4.5 Compensation and Welfare**

Compensation, as Geringer and Frayne have defined it, “includes those rewards - monetary and non-monetary, direct and indirect - that an organisation exchanges for the contributions of its employees, both job performance and personal contributions”

(1990:114). This definition, however, could hardly be applied to the compensation system under the centrally planned economy in China as it was strictly controlled by the state rather than the enterprise. One of the main features of this system was centrally fixed wage scales (see Section 3.3.2). Another main feature of the system - egalitarianism - is reviewed in this section, followed by an examination of changes in this system since the reforms.

#### **4.5.1 Egalitarian practices**

The compensation system under a centrally planned economy was characterised by its egalitarianism, which was reflected in five aspects: few incentives offered to managers to improve enterprise performance; minimal wage differentials; seniority-based wage promotion; a stress on moral-encouragement rather than ‘bourgeois materialism’ incentives; and low take-home pay but high subsidies and benefits. Each of these features is examined below.

Under the old compensation system, *few incentives* were offered to enterprise cadres or managers, because industries “were owned and run by the state, and their growth was regulated by planning targets rather than by the profit-maximising decisions of independent entrepreneurs” (Putterman, 1992: 468). Enterprises were described as “little more than appendages of the state bureaucracies that administered them” (Harding, 1987: 113). The government gave mandatory instructions to enterprises that guaranteed both the delivery of inputs, including capital, production material and human resources, and a set price for all the products (Borgonjon & Vanhonacker, 1992). Enterprise managers had no right to set up or modify any wage scale, let alone to increase their total payroll, irrespective of their performance. This was especially

true for SOEs, because managers in profitable enterprises “did not have residual rights to the profit of the enterprise” (Liew, 1997: 78). Meanwhile, the state’s “soft budget constraints” provided loss-making managers with unlimited protection from the consequences of poor performance (see Kornai, 1980, 1986; Walder, 1986: 28).

*Minimal wage differentials* were another feature in the compensation system as there was opposition to a wide wage spread (Tung, 1981). In the discussion on centrally-fixed wage scales (see Section 3.3.3), this feature was highlighted by the fact that the highest pay received in an enterprise was usually only two to three times more than the lowest (Wang, 1997; Zhao, 1995). In addition to such minimal wage differentials among employees and managers, the entry level of pay was very low (Shore, Eagle & Jedel, 1993; Sun, Zhang & Ge, 1989). The small gap between wages reflected strong ideological and political influences. Mao Zedong and his Party advocated the elimination of the distinctions between city and country, worker and farmer, and mental and manual labour (Dixon, 1981:12). This was believed to be “an important step to facilitate the transition from socialism to communism, and from income distribution according to work to distribution according to needs” (Zhao, 1991: 21). Furthermore, during the Cultural Revolution (1966-1976), the leftists even declared that “the bigger the differences in the payment for labour, the more capitalism there is” (Henley & Nyaw, 1987: 131).

The third characteristic of the compensation system was its *seniority-based wage promotion*. Wages at each grade were fixed and total payroll was determined by the overall number of employees. Employees routinely assumed that people assigned to the same work position should get the same pay regardless of variations in job content

or performance (He & Shu, 1992). This wage system was not linked to personal performance, work attitude or even technical skills. Wage increases were infrequent, occurring at intervals of several years (Henley & Nyaw, 1987). The increases commonly took the form of national unified grade promotions for all employees and these promotions were determined predominantly by seniority or political background and personal connections (Knight & Song, 1991; Shenkar & Chow, 1989; Walder, 1986). The state specified the quota for total employment and associated payroll, which could not be exceeded by the enterprises. Enterprises were also required to send a copy of their total payroll figures to the People's Bank of China, which facilitated surveillance by the central bank (He & Shu, 1992). This fixed wage system together with the 'iron rice bowl' meant that employees did not need to worry about job insecurity or pay inequity. Not surprisingly, this system encouraged poor performance and became one of the major reasons for the low efficiency and low productivity of Chinese enterprises.

The emphasis placed on *moral encouragement* rather than 'bourgeois materialism' incentives was another key feature of the compensation system. Moral rather than materialistic incentives were preferred because they carried less political risk for managers (Zhao, Y.W. 1995). Martinko and Yan (1990) note that spiritual encouragement or non-monetary reward, such as granting the status of 'model worker' or the presentation of a red flower, was commonly adopted, while meaningful tangible rewards were very limited. During periods of political extremism, such as the Great Leap Forward and the Cultural Revolution, monetary rewards were severely criticised as bourgeois materialism and were eliminated (Henley & Nyaw, 1987). The withdrawal of material incentives during such political upheavals, combined with the

equality-oriented planned wage system, seriously affected the implementation of the principle of 'to each according to his/her work' (Shenkar & Chow, 1989; Zhao, 1991). Xiang concluded that the consequence of the old compensation practices was "absolute egalitarianism whereby the advanced gained nothing, the backward lost nothing and the initiative of the masses was seriously dampened" (1982: 112).

Finally, *low take-home pay but high subsidies and benefits* was another characteristic to be emphasised. It is widely recognised that China has adopted a low-wage system since the founding of the PRC. One reason for this was that the wage was not determined by employee's contribution to the production process, nor by its market exchange value, but rather by the 'existential' value of the employees themselves (Sun, et al., 1989). The low income policy has also acted as a welfare system that provided a safety net for low income earners (Dixon, 1981; Riskin, 1975). However, a cycle was established in which low wages affected work motivation and thus productivity, leaving the state to suffer the heavy burden of subsidising employees, especially those in state enterprises.

Tsang (1994) has pointed out that the provision of numerous subsidies or benefits to employees is a distinct feature of the Chinese enterprise system. An internal document, "The Joint Venture Labour Management Provision", issued by the state in 1984 listed subsidies paid by state owned enterprises for their employees (*Documents*, 1993: 12). The subsidies paid by the enterprise included working insurance, medical coverage, public welfare, non-staple food, winter heating fee, and home-leave travelling allowances, whereas those paid by the state comprised housing, education, medicine, transportation and staple food (e.g., rice). In 1979, when employees' average annual

take-home pay was 717 yuan, subsidies paid by the enterprise and the state were 269.54 yuan and 610.11 yuan respectively. Total subsidies or benefits (879.65 yuan) thus became 122.68% of an employee's average annual pay (717 yuan). In the early 1980s, details of this complicated wage and benefits structure were provided to foreign investors to ensure that foreign companies paid full labour costs (Stevenson-Yang, 1996). This high subsidy level "reduced the portion in the consumer fund which could otherwise be placed at the workers' direct disposal through income distribution according to their work" (Zhao, 1991: 27). The subsidies helped to strengthen the iron rice bowl practice and made the enterprises "mini-welfare states" (Smith & Thompson, 1992: 8; Zhu & Campbell, 1996: 33) or "company towns with complete facilities for exclusive use by their workers" (Stevenson-Yang, 1996: 8).

#### **4.5.2 The trend towards performance-related compensation**

The traditional compensation system which was strictly controlled by the state rather than by the enterprise soon became a major target of the economic reforms since it was incompatible with the principle 'to each according to his/her work' and failed to act as a productivity enhancing mechanism. Compensation reform started by modifying the enterprise into a relatively independent business unit where compensation was linked to performance. Following this initial step, the state-fixed wage system was replaced by diversified wage packages with more emphasis on enterprise profitability and individual performance. As an important part of the wage package, the bonus system was restored and further developed. Compensation reform has resulted in a shift from equal distribution to income polarisation among employees working in different types of enterprises, especially in the non-state sector such as foreign invested enterprises. These major changes are examined briefly in the following section.

Linking compensation to enterprise performance was the first important step in compensation reform. In 1984, the central government launched enterprise reform with the main objective to provide incentives for enterprises and individuals to be more efficient (Xu, 1996). A series of new policies and regulations such as profit retention and the separation of management from ownership were introduced. The Contract Management Responsibility System (CMRS), for example, was widely adopted in 1987 to separate the ownership of an enterprise from its authority to manage its own operations (Chen, D.R. 1995). The Enterprise Law issued in 1988 and the Regulations for Changing the Methods of Operation of State-owned Industrial Enterprises issued in 1992 further endorsed granting autonomy to enterprises. This autonomy, as defined in the regulations, included assumption of four responsibilities of enterprises: the responsibility for their own business and operations; profits or losses; development and expansion; and legal compliance (*Economic Daily*, 25 August, 1992).

As a result, enterprises have become relatively independent business units possessing more decision-making autonomy (Hsu, 1991). The Enterprise Law states that “enterprises possess the sovereign authority over incentive award payments and the form of wages as appropriate to the conditions of the particular enterprise” (Article 3). The regulations stipulate that instead of using fixed national wage scales, an enterprise’s total wage cost should be related to its economic performance. This provision was the first legal confirmation of the sovereignty of enterprises over internal distributions (Yabuki, 1995). Premier Li Peng further stressed the importance of wage reform in his 1992 government report, stating that additional steps should be taken to eliminate egalitarianism and link enterprise payroll to its economic performance (*Documents*, 1992: 8).



As compensation became linked to enterprise performance, diversified wage packages emerged. This was the second main change in the compensation system. In late 1984, the central government announced that it was planning to develop measures that would link wages and bonuses more intimately to improved enterprise performance (Harding, 1987). Since 1985, diverse forms of the wage system have been introduced, such as floating and structural wage systems. The former introduced a range of wage fluctuations to link individual wages to enterprise and/or individual performance (Jackson, 1988; Takahara, 1992), while the latter consisted of four components: basic pay, position (job related) pay, seniority pay (based on length of service), and bonus (Child, 1994; Nyaw, 1995). However, it was not until 1987 that the State Economic Commission officially proposed to hand over wage-fixing powers to enterprises (Jackson & Littler, 1991). The enterprise's autonomy to institute its own wage scale plus the inflation factor led to rapid wage increases. The average annual wage in the manufacturing sector jumped from 597 yuan in 1978 to 1,112 yuan in 1985, 2,073 yuan in 1990 and 4,283 yuan in 1994 (*Statistical Yearbook of China*, 1995).

In 1992, the Ministry of Labour introduced a new position-and-skills wage system to facilitate enterprise reform. This system was based on the four major working factors emphasised by the International Labour Organisation in 1950: knowledge and skills required; responsibility assumed; work intensity (load) involved; and working conditions (Hu & He, 1992). To help eliminate egalitarianism in the old eight-grade wage system, enterprises were required to consider these four components when assembling wage packages. This new system has, operationally, rendered "it easier to quantify the worker's performance and easier to link such performance to pay" (Zhao & Nichols, 1996: 14). The system is also flexible as enterprises may place different

weights on each of the four factors - for example, the knowledge and skills factor has been weighted from 25 to 40% of the wage package (Hu & He, 1992). In the absence of job analysis in many enterprises (Zhu & Dowling, 1998), the degree to which performance-related pay was allocated varied across enterprises.

The restoration and development of the bonus system is another distinctive change. Since 1978 when the bonus system was first restored, it has been further developed with the aim of ending egalitarianism and rewarding good performance. A survey conducted by Henley and Nyaw (1987) in 1984 showed that material incentives such as wage increases and bonuses were ranked first and second out of 20 motivation items by workers in China. However, the research conducted in 1980s revealed that bonuses tended to be distributed equally to all workers and managers in a given job grade, and the bonus often became a solid part of the basic wage (e.g., Laaksonen, 1988; Nelson & Reeder, 1985; Tu & Jones, 1991). As the bonus became normally distributed and exhibited a form of egalitarianism, its effectiveness was reduced. Nelson and Reeder (1985) noted that it was rather difficult to motivate a workforce in China when there was no linkage between pay and performance. Similarly, Von Glinow and Teagarden (1990) have stressed that Chinese SOEs had the least motivated and least competitive workers partly due to the legacy of egalitarianism.

Recent research on bonus distribution has indicated a greater emphasis on workers' performance and efficiency both in practice and in employers' expectations (Chow, 1992; Goodall & Warner, 1997; Zhao & Nichols, 1996). The government's document also discussed ways to "improve the method of linking total wages to economic efficiency and performance" (Warner, 1996a: 218). However, minimal bonus

differentials and envy or 'red eyes' (a Chinese phrase for jealousy) are impediments to linking individual performance to bonuses (Branine, 1997; Warner, 1997). As performance evaluation is not conducted on a regular basis and often lacks objective measurement (Shore et al., 1993), the issue of distributing a bonus to match compensation with individual contribution is not yet adequately dealt with. Therefore, bonus distribution is still at an experimental stage in China.

Compensation practices in FIEs reflect another major change in compensation. By the end of 1996, China had absorbed a total foreign direct investment (FDI) of US\$ 171.8 billion with 281,298 projects (*People's Daily*, 19 December 1996), and ranked only second to the US as a global destination for FDI (Walker & Ridding, 1996). FIEs were subject to much less stringent government regulations compared with SOEs. However, they were not totally free to set their own wage scales before the Labour Law was issued in 1994. In 1980, the state's Regulations for the Management of Foreign Joint Ventures set a limit on either extremes of the wage scale for FIEs: their wage level should be 120 to 150% higher than the average wage of workers in SOEs in the same locality and business type. In 1986, the state eliminated the pay ceiling "to allow more flexibility for enterprises that want to encourage productivity through higher wages" (Horsley, 1988: 53). This pay ceiling was reintroduced by the Ministry of Labour in 1990 and required approval from the supervising department (*Documents*, 1990). However, it was difficult to gauge local average earnings as "there is no recognised range of wages and no consensus on what constitutes a basic wage" (Tretiak & Holzmann, 1993: 138). FIEs generally treated the government's regulations as broad guidelines for reference purpose only.

Since the issue of the Labour Law in 1994, FIEs only need to adhere to the minimum wage regulation. In fact, FIEs have much larger pay differentials and have the highest wage level compared with SOEs and collective-owned enterprises (COEs) (Tretiak & Holzmann, 1993; Zhu, Y. 1997). In 1995, for example, wages in FIEs were 132% of wages in SOEs and 189% of wages in COEs (Zhu, Y. 1997). Even more marked differences in the wage package were reported by Goodall and Warner (1997: 577) - the bonus could range from hundreds to thousands of yuan in a FIE.

FIEs are now free to decide their wage scales on the condition that they observe the minimum wages requirement. Lump sum allowances are increasingly popular in FIEs as employers can discard the traditional system of paying various stipends, such as meal, clothing, and shower allowances (Delisle & Chin, 1994). However, this does not mean that all FIEs have adopted more Western style HR practices to replace China's traditional egalitarian compensation practices. Goodall and Warner (1997) noted that under the influence of iron rice bowl antecedents and their Chinese partners, pre-reform wage practices can still be observed in FIEs, especially international joint ventures (IJVs).

#### **4.6 Training and Development**

Like other HRM practices discussed previously, training and development in the industrial sector is also undergoing transition from centrally planned practices to more job-related activities. This section looks at these practices prior to and since the reforms.

#### **4.6.1 Centrally planned training practices**

Training practices in the industrial sector before the economic reforms were directly affected by a centralised economic planning and regulatory structure as was the education system. Under the planned economy, the education system “enrolled all students according to state quotas and then all graduates would be assigned by the state” (Laaksonen, 1988: 249). Similarly, at the enterprise level there was “a consistently high degree of state involvement in the provision and regulation of manpower training resources” (Nyaw, 1995: 202).

The traditional education system focused on general secondary school education rather than vocational education, even though less than 10% of secondary school-leavers could enter tertiary institutions (Lu & Chen, 1990; Yue, 1985). Yue (1985) reveals that in 1976, 98.8% of students were in general secondary schools, while only 1.2% were attending vocational schools. Both Holton (1990) and Zhao (1994) point out that the emphasis on general education and obtaining high school certificates deprived many junior and senior high school graduates of employment opportunities as they lacked the vocational skills necessary for employment. Meanwhile, the higher education system closely followed the Soviet model, taking a narrow approach to course design and placing emphasis on traditional abstract theories rather than practical or vocational training. As a result, many graduates were narrowly trained and lacked the ability to solve practical problems at work. This issue could not be adequately addressed in the training programs offered by industrial enterprises as the training was centrally planned and usually uniform nation-wide without meeting specific needs of the job.

The employee training system in the industrial sector was generally separated into two parts, one for workers and one for cadres. The training program for workers was planned by the Department of Training under the Ministry of Labour. The jurisdiction over cadre education and training rested mainly with the Department of Training of the Ministry of Personnel and the State Education Commission. The training for leading cadres who were Party members was often supplied by the Party's own schools.

Training for blue-collar workers primarily took the form of apprenticeships and technical school education (Guan, 1990; Zhao, 1994). The number of apprentices and technical school students was decided by the state, leaving enterprises or technical schools no discretion in filling the quotas as required. Enterprises also had to offer apprentices lifetime employment once they started training. Technical school students would be assigned to an enterprise by the state after completing two to three years of study. Apprenticeship was offered to young people over the age of 16 who lived in a city or town. They had usually completed primary school education and would become junior-level skilled workers after one to three years of on-the-job training. This type of training was abolished during the Cultural Revolution (1966–76).

Technical schools normally enrolled students who had completed year 9. These students would become middle-level skilled workers after graduation (Guan, 1990). Apprenticeship and technical school thus became the major sources of skilled workers. However, highly centralised planning made it difficult to match each enterprise's training with its production needs, and training was mainly provided for new workers rather than for the career development of existing employees. This impeded the advancement of the overall education level of the work force (Yu & Xin, 1994).

The training for cadres, especially managers who were also Party members, was mainly offered by schools run by the Party at central, provincial and municipal levels, or colleges for cadre education and training (Su & Zhu, 1992). Training priority was usually given to political studies, such as the theories of Marxism, Leninism and of Mao Zedong, and the Party's policies and documents (Lin, 1989; Zhao, 1986). Laaksonen (1988) asserts that the bottlenecks in Chinese economic development were caused especially by the lack of experts in specific fields. However, the government under Mao's regime tried to avoid emphasising the importance of expertise. It preferred a politically pure all-rounder to a non-political technical expert. This policy was accepted under a planned economy where cadres, "were expected to be careful implementers of state-defined plans for their particular enterprises. Their jobs focused on meeting set production goals and maintaining the engineering techniques necessary to ensure fulfilment of those quotas" (Borgonjon & Vanhonacker, 1992: 12). The politically oriented training for cadres inevitably led to a shortage of qualified managers and this became a serious problem during the reform period.

During the Cultural Revolution, China's training system collapsed and school education virtually ceased. Consequently, a generation of Chinese labour was deprived of a proper education, while the older generation's knowledge and skills withered and decayed as intellectuals were scorned, and many were sent to undertake manual work for 're-education' (Nelson & Reeder, 1985). The certificate-oriented education system and centrally planned employee training practices left China with an inadequately educated and trained workforce. In 1980 a sample population survey covering 20 million industrial employees in 26 provinces and cities was conducted. It was found that 8.2% of employees surveyed were literate or semi-literate; 32% had less than 9

years of education; 40.8% had completed year 9; 15.9% had finished year 12 and only 3.1% had tertiary education (Yu & Xin, 1994). The technical level of workers was also demonstrated to be quite low by the same survey (Yu & Xin, 1994). In 1982, the state conducted the Third National Sample Census, in which 10% of the population was surveyed. According to the survey results, 71% of all Chinese technical workers were below technical level grade three (average skilled worker); 23% were between grade four and six (middle skilled level); and only 2% were in grade seven and eight (senior level). This low level of skills naturally impeded the development of industrialisation and improvement in labour productivity (Yue, 1985).

While the level of education and technical skills was very low among workers, many of the managerial cadres also lacked adequate technical training for their positions (Chan, 1990). According to Zhao (1986), in 1983 the state investigated the education level in different age groups of its 18.5 million cadres across 29 provinces and major cities. Table 4-2 shows that 33.5% of these cadres were aged between 41 and 50, and 46% of them had only completed 9 years or less of education (including the primary and secondary education). Cadres under the age of 30 received more education (64% of them finished year 12). It is important to note that education for people under the age of 30 was disrupted by the Cultural Revolution.

**Table 4-2 Chinese cadres' age and education levels as surveyed in 1983 (n = 18.5 million and percentage was based on this number)**

Age	Percentage (%) of Total Cadres	Tertiary Education (%)	Year 12 (%)	Year 9 (%)	Below Year 9 (%)
> 50	19.1	n/a	n/a	n/a	n/a
41-50	33.5	20	34	34	12
31-40	23.7	22	47	24	7
< 30	23.7	20	64	15	1.4

Source: Zhao, L. K. 1986: 130.



#### **4.6.2 More job-related training and development**

The economic reforms provoked dramatic changes in the work environment of most Chinese enterprises. In particular, the industrial reforms have greatly freed enterprises from the restrictions of state administration. Increased decision-making powers have changed the manager's role from "merely an administrator responsible for carrying out government orders to a manufacturer and marketer of goods with full powers to decide on management matters and full responsibility for the enterprise's performance" (Sha, 1987: 699). Borgonjon and Vanhonacker (1992: 12) have observed that the performance of Chinese managers no longer depends "as much on political or technical aptitude as on the ability to pinpoint market opportunities, to solicit financing, and increasingly, to match competition from foreign enterprises". Managers now need a new set of skills to be successful under the pressure of increased autonomy, competition, and uncertainty.

The lack of adequately trained management was identified by the government as a major obstacle to achieving modernisation and implementing the industrial reform (Child, 1994; Warner, 1993). Laaksonen (1988) noted that the Chinese government was determined to improve managers by offering them both training opportunities and examination assessment. In 1979 the China Enterprise Management Association was set up by the State Economic Commission to co-ordinate management education by establishing training courses with domestic and foreign education institutions. These training courses have enabled Chinese managers to learn modern management concepts and methods. In 1984, China offered the first state examination for directors and senior managers to test their basic understanding of economics and general knowledge of business management. The then premier Zhao Ziyang made it clear in

his Government Report to the National People's Congress in May 1984 that "the state will organise uniform examinations (plus assessment of professional performance) for factory directors and managers. Those who fail must not be allowed to remain at their posts" (Laaksonen, 1988: 251). This move obviously created pressure on managers to undertake further training.

The reforms have required urgent training and upgrading of both managerial staff and blue-collar workers. Lu and Chen (1990) stressed that many young workers were unable to work in advanced production lines imported from foreign countries because of their lack of technical competence. Similarly, international joint ventures often complained about the shortage of skilled workers (Holton, 1990; Schnepf, Von Glinow & Bhambri, 1990; Tretiak & Holzmann, 1993). Child claims that the "effective use of high technology equipment, often imported or copied from abroad, remains a serious problem in Chinese industry" (1994: 173). This workforce deficiency was recognised by the government when it stated in one document that "vocational training of incumbent cadres, managerial personnel, and labourers on the payroll was considered one of the fundamental tasks of the nation" (*Documents*, 1984: 22). This policy was later reinforced by the adoption of skill-related pay in the wage reform (Jackson, 1992; Zhao, 1995).

The government's emphasis on labour market reforms has resulted in a series of changes in the practice of training. The first change is a shift from post-employment to pre-employment training. In May 1981 the central government reintroduced apprenticeship programs and emphasised that "apprentice training will be one of the major and effective methods for newly employed workers" (Guan, 1990: 34).

However, this post-employment apprenticeship policy was debated and challenged in early 1989 at a seminar conducted by the Ministry of Labour. Guan (1990) reported that one of the proposals supported by seminar participants was the introduction of pre-employment traineeships. Instead of offering lifetime employment to apprentices before they started job training, enterprises would recruit trainees and provide their living allowance during training. Only after the successful completion of the pre-employment training program would the trainee be offered a job. This practice aimed to break the iron rice bowl for apprentices by linking training directly to employment. This proposal was implemented experimentally in some areas in the early 1990s and, following its success, became formally written into the Labour Law in 1994 (see Article 68 - "labourers to be engaged in technical work must receive pre-job training before taking up their posts". This requirement has radically changed the traditional practice of finding employment before receiving proper training. Now job seekers have to be trained before they can apply for work.

The requirement of double certificates (educational and vocational) for employment is another major change in the practice of training. In 1990 the Ministry of Labour promulgated the Regulations for Worker's Technical Grade Examination which defined examination content, including political and technical aspects (Guan, 1990; Zhao, 1994). This examination system, however, has been gradually replaced since the mid-1990s by a vocational qualification verification system. In 1993, the Third Plenary of The 14<sup>th</sup> Congress of the CPC adopted a resolution specifying that "the state should stipulate the qualification requirement and employment criteria for different occupations and adopt the practice of double certificates, education certificate and vocational qualification certificate" (CVQDV, 1994: 8). This was the first time since

1949 that vocational training had been given the same priority as liberal education. The government recognised that the German model of a dual education system was appropriate for China (Guan, 1990), and aimed to achieve a similar outcome as that observed in Germany, where young people attained vocational knowledge and skills.

The requirement of double certificates has not only been implemented in most vocational education institutions such as technical and vocational schools, but also introduced to the workforce training system to replace the technical grade examination. It enables workers to take the training course of their choice and offers more flexibility in job selection. The double-certificate practice was also required to extend to the private sector to increase the technical competence of self-employed people and the rural labour force (CVQDV, 1994). The adoption of double certificates was legitimised in the Labour Law in 1994. This clearly indicates that reform in the training system is striving “to develop professional skills of labourers, improve their qualities, and raise their employment capability and work ability” (*The Labour Law*, Article 66). The new policy helps maintain a balance between theoretical knowledge and practical skills, supplying the labour market with technically competent graduates rather than school-leavers lacking vocational skills (Chen, K. 1995).

The government’s emphasis on employee training and development has caused a rapid growth in vocational education and training. According to Guan (1990) and Li (H. Y., 1994), the number of technical schools increased from 334 with 120,370 students in 1966 to 4392 with 1,556,000 students in 1992. The number of employment training centres established by large enterprises or local government since the reform rose to 2,406 in 1992, with an annual training capacity of 1.1 million people. As the

traditional labour allocation system has been replaced by a two-way selection system, vocationally trained graduates have to compete for jobs in an open market. This competition, in turn, has placed pressure on vocational schools and individual students. Schools have to offer courses according to market demands to attract students. Students have to grasp knowledge and skills in order to be technically competent and competitive.

While training for vocational and professional skills has been emphasised, further training for adults (especially managers) has been carried out with equal vigour. Since the 1980s, many institutions for further education of adults have been established, such as TV Universities and Management Training Colleges (Lu & An, 1991; Zhao, 1995). These institutions enrol part-time and full-time students and usually offer only a two-year college associate diploma (called *da-zhuan*). Meanwhile, the State Economic Commission (SEC) introduced a nation-wide program of management training, including an MBA program. Some enterprises in China have even sent their managers overseas for training. For example, a refrigerator manufacturing enterprise in Jiangsu, China signed a contract with the University of Southern California for training their managers in business administration (see Chen, 1999). Child (1994: 174) states that “the scale of China’s management education and training effort is impressive and is a clear manifestation of the regime’s determination to modernise the economy”. Among China’s managerial staff, 35% had obtained a *da-zhuan* diploma in 1990 in contrast to 14% in 1982 (Zhao, 1995: 273). This education level has been further improved in the 1990s and was evident in a survey conducted by the State Planning Committee in 1998. The survey results indicate that among the respondents (3180 senior managers from industrial enterprises), 40.1% of them had achieved a *da-zhuan* diploma, 34.3%

had bachelor's degrees (4-year full time university education) and 7.3% had postgraduate certificates (Xie et al., 1999: 70).

## **4.7 Labour Relations**

Labour relations or industrial relations has been defined in the West as “the study of the employment relationship in industrial and industrialising societies” (Poole, 1997:264). This usually include both formal and informal dealings between workers and managers and/or employers with respect to wages and welfare, conditions of work, unionisation of employees, collective or individual bargaining, and the right to strike (Poole, 1997). However, according to Chinese sources (Xia, 1991: 544; Zhao & Peng, 1992:169), labour relations represent “different employment relationships in different systems”. This implies that in a capitalist economy an unequal relationship exists between employers (or managers as their representatives) and employees, with the former always exploiting the latter. In contrast, as part of the features of a socialist country, labour relations in China are supposed to involve a mutually co-operative and mutually beneficial relationship between the state, enterprises and employees. Therefore, the Chinese system of labour relations has characteristics quite distinct from those in the West. This section first reviews the labour relations during Mao’s regime and then examines such relations since the reforms.

### **4.7.1 Pre-reform labour relations**

Zhao (1995: 344-56) has noted that in the early 1950s during the economic rehabilitation period which allowed a co-existence of mixed ownership structure, industrial disputes between private employers and their employees were solved

through government intervention and the Trade Union Law of the PRC, issued in June 1950. After socialist transformation and the establishment of socialist ownership in the mid-1950s, the nature of labour relations changed fundamentally, with enterprises being ‘wholly people owned’ or collectively owned and workers being ‘masters of the country’. Theoretically, the interests of an enterprise became the same as the employees’. As a result, disputes in an enterprise should not involve confrontation between managers and employees, and should be solved peacefully with the help of trade unions. In practice, enterprises were controlled by the state, and managers held no power in human resource activities such as hiring, firing and compensation; employees were allocated by the state and offered tenured positions with their wages and welfare centrally controlled and adjusted. Therefore, the employment relationship was actually between the state and the employees. Trade unions, directly led by the Party, played an important role in helping the state to manage its workforce. Unions were non-confrontational during Mao’s regime where little conflict existed between employees and management.

While trade unions in the Western market economy “seek, through collective action, to give workers a formal and independent voice in setting the terms and conditions of their work” (Noe, Hollenbeck, Gerhart & Wright, 1997: 562), and are viewed by workers “as a citadel from which they can bargain with management from a position of strength” (Tung, 1982: 228), the unions in China served as a pillar supporting state power and were used to “transmit the Party line to workers, encourage production, engage in political education, and execute a range of welfare chores” (Hoffmann, 1974: 134). The unions were also called the “transmission belts” (Poole, 1986: 92) and were “fundamentally different from the unions in Western democracies” (Lee, 1986:

159) in terms of their organisation, functions and roles, and the members they recruited.

China's trade unions, under the All-China Federation of Trade Unions (ACFTU), were established in 1925. From 1949 onwards, the ACFTU, the primary trade union body in the country, undertook a national role until 1966 when it went into abeyance during the Cultural Revolution (Warner, 1995: 23). The trade union constitutions stated that unions were Chinese working-class mass organisations led by the Chinese Communist Party and formed voluntarily by workers and staff members. However, the Party dominated from the outset, as it controlled the policy-making of unions, supervised policy implementation, and scrutinised and evaluated the performance of union cadres (An & Feng, 1991; Child & Xu, 1989; Dixon, 1981). The Party also appointed senior union staff and these officials sometimes exchanged roles with enterprise managers (Warner, 1995).

Trade unions were organised vertically with councils at central, provincial, municipal and organisational levels. The ACFTU had departments dealing with the economy, finance and accounts, international issues, organisation, propaganda, training, safety, wages and women's needs. The councils at lower levels handled similar activities with rules from above rather than below (O'Leary, 1992). The trade unions had to undertake endeavours in the four main areas of protection, construction, participation and education (An & Feng, 1991: 149-60). First, the unions had to protect and defend employees' legitimate rights, safeguard their interests and be their caretaker. They needed to channel employees' opinions, needs or grievances about their work and life to the Party and higher authorities so policies could be adjusted. Second, trade unions



had to organise employees to fulfil state production plans, and stimulate employees' enthusiasm for work in order to raise productivity. This usually involved launching socialist labour emulation campaigns (*laodong jingsai*) to encourage workers to participate in technical innovation activities and recommending outstanding employees as models for others. Third, the unions had to educate and prepare employees to exercise their democratic rights in management participation. Finally, trade unions were required to conduct ideological, cultural and technical education programs for employees to raise their political consciousness, and enable them to act according to the Party's policies and be competent in their positions.

The trade unions' four broad aims covered two major functions: administration and representation. Under the planned economy, trade unions were always required to follow policies and regulations of the Party and the state (Zhao, 1995) and were thus "disproportionately geared to the "administrative function rather than representative" (Warner, 1995: 37). This is evident in the services provided by trade unions in the Chinese welfare system including various insurance and welfare benefits for employees (see Dixon, 1981 for details). In addition, as a senior ACFTU cadre observed, most trade union cadres were Party members, and had to subordinate themselves to the Party's resolutions rather than the will of the majority of workers if there was a clash of interests between the Party and workers. Otherwise they would be criticised or even expelled from the Party (Dixon, 1981: 45). The Party's complete control over trade unions undermined the unions' representative function.

Furthermore, the representative function of trade unions for employees was "mitigated by their exclusive membership requirement", as permanent employees were the only

ones who could join unions and become eligible for welfare benefits administered by trade unions (Zhang, 1988, cited in Warner, 1995: 38-9). This restriction denied union protection to temporary and contract employees and was one of the reasons for the collapse of unions during the Cultural Revolution when they were criticised for their “welfarism and economism” on behalf of urban employees who held tenured positions (Dixon, 1981: 130). Economism here meant that trade unions had put the short-term interests of workers before the long term interests of the nation (Leung, 1989).

In brief, the most distinctive feature of pre-reform labour relations in China was an administration-oriented relationship among management, trade unions and employees (Zhao, 1995: 351). Without operational independence, trade unions could only act in “a consultative manner” (Warner, 1995: 45) and inevitably became part of the Party’s organisational structures. In effect, the trade union became just another “official department” (Zhao, 1995: 355) or “another voice within the state and Party apparatus” (Chan & Senser, 1997: 113).

#### **4.7.2 Labour relations during the reforms**

Since the reforms, management (especially managers in FIEs and POEs) has been granted more autonomy to hire and fire employees, to determine employee compensation packages and to abolish lifetime employment. For example, different wage systems were tried or adopted by enterprises, such as floating, structural or ‘blurred’ (i.e. unpredicted) wage systems (see Nyaw, 1995; Jackson, 1992). A labour contract system was implemented nation-wide and by the end of May 1996, 88.7% of the workforce in China was employed under this system (*China Labour Daily*, 8 August 1996: 1). Consequently, labour relations in China no longer exist just between

employees and the state, but also between workers and foreign investors or their representatives, and between private employers and managers who have become legal representatives of enterprises.

It has been reported that many labour relations disputes have occurred since the reforms due to unjustified dismissals, inequitable wage packages and even physical punishment (see Chan & Senser, 1997; Zhao, 1995; Zhu & Dowling, 1994). An (1996) argues that trade unions could play an important role in reducing such disputes and conflicts by participating in more activities. These include developing a series of labour-related laws and regulations, such as a 'Labour Protection Law' and 'Minimum Wage Law'; assisting and advising individual workers when they sign labour contracts, and supervising the implementation of contracts; advocating the adoption of a collective contract and signing the contract on behalf of employees; being actively involved in mediation of labour disputes; and supervising the implementation of Labour Law within the enterprise. An's argument raises the question of whether trade unions need to adjust their traditional practices under to play a greater role in current transitions where industrial disputes surface.

Many researchers have noted that the trade unions remain a non-Party apparatus to link the Party and workforce and to facilitate management (see Brown & Branine, 1996; Jackson, 1992; and Laaksonen, 1988). Warner (1993: 49) also notes that "there is little comparison between Western collective bargaining and the Chinese model of labour management with the trade unions in a subordinate role in the enterprise". This is especially true now that the Party has endeavoured to strengthen its position in state-owned enterprises. In a document issued by the Party (The Notice of Further

Strengthening the CPC's Role and Improving the CPC's Construction Work in the State-owned Enterprises, see *People's Daily*, 11 March 1997: 1), the Central Committee stressed that the political leadership of the Party over the enterprises is always of great significance and the Party branch of an enterprise should be involved in major decision-making in areas such as business strategies, development planning, budgeting, and hiring and firing of middle-level and senior-level managers. The document also emphasised that all cadres of an enterprise (i.e. managers and white-collar employees, including heads of trade unions) should be managed by the Party. It signifies that only the Party branch has the power to recommend higher level managers as the head of the trade union, and to scrutinise the hiring and firing decisions made by the general manager or the board of directors. The Party branch is also responsible for training, appraising and monitoring managerial staff at all levels. Considering the increased authority of the Party in enterprises, especially SOEs, there is no doubt that the trade unions have to adhere to the Party's instructions.

However, while trade unions are still passive supporters of management in SOEs, they may gradually become active defenders of workers' interests in FIEs or POEs in China. Nyaw (1995: 210) has noted that "one unique aspect of the trade unions of joint ventures in China is that they deal directly with foreign partners or their representatives with regards to labour disputes or grievance". Trade unions are not mandatory in FIEs, but the Labour Law has legitimised the right of workers to form and participate in trade unions. The ACFTU in May 1994 announced a campaign to organise unions in all overseas-funded enterprises, and in September 1996, the ACFTU reported that 48,000 out of 120,000 such enterprises had been unionised (Chan & Senser, 1997). Although Chan and Senser argue that trade unions have little

or no impact even when they are in place, the government has still called for the establishment of trade unions in these enterprises to protect local employees from being exploited or unfairly treated by foreign investors or private employer (Zhao, 1995). Therefore, trade unions will help the state to monitor and supervise foreign partners of joint ventures (when foreign investors hold the majority of ownership), owners of wholly foreign-owned companies or private owners in implementing the Labour Law, especially in areas of employee compensation, training and contract termination.

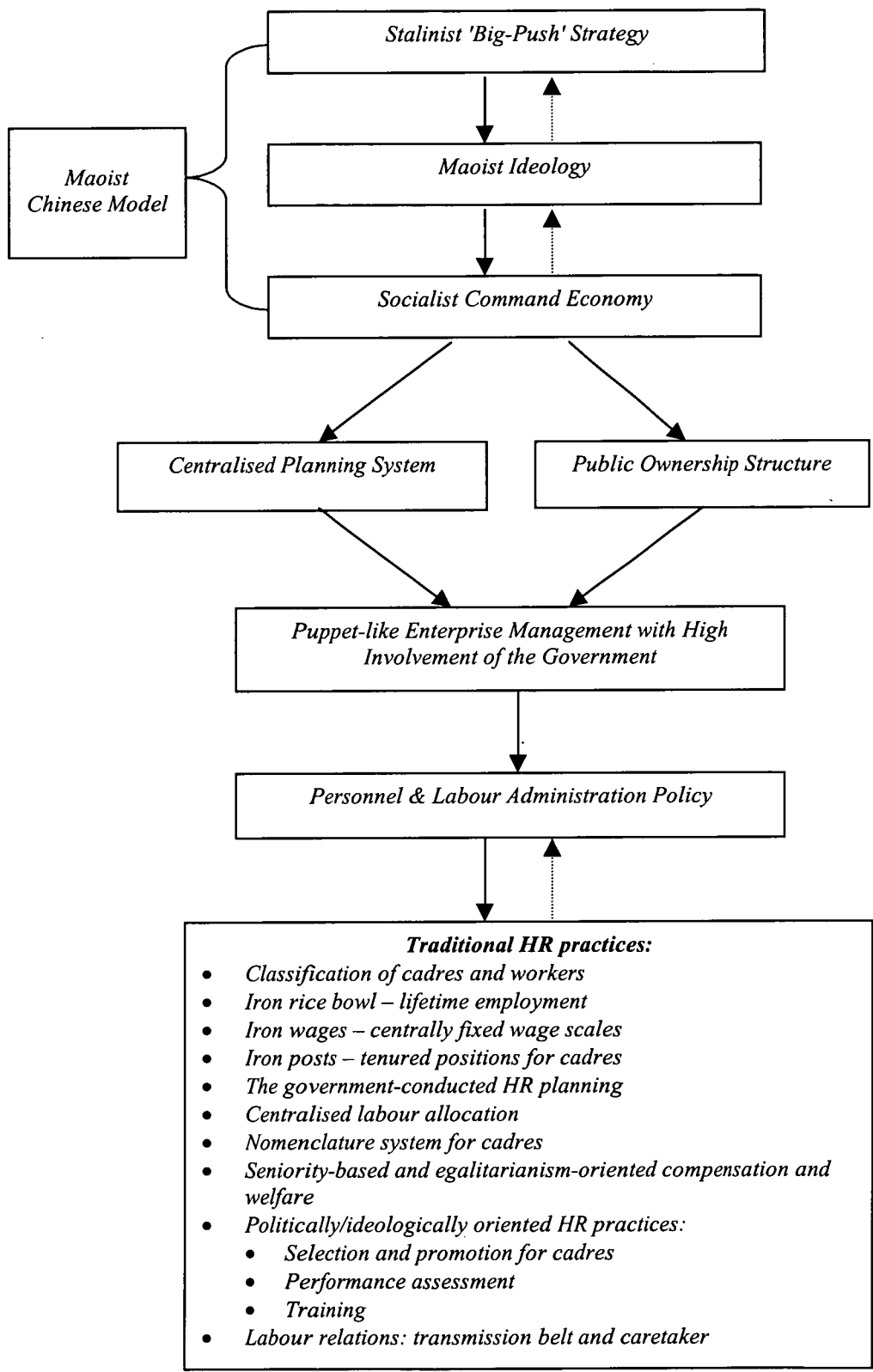
#### **4.8 Implications of the Literature Review for Further Research on Chinese HRM**

The preceding literature review reveals how cadres and workers in the industrial enterprises were managed during Mao's regime under the Maoist model which was characterised by its heavy industry-oriented Stalinist big push strategy, a socialist command economy system, and the radical principles of Maoist ideology. These three major parts of the model formed key contextual variables in the domestic economic environment before the economic reform, because China had adopted a closed-door policy at that time and the global environment was ignored. The two major components in the command economic system in which Chinese industrial enterprises operated were the planning system and the ownership structure. Under the command economy, a highly centralised planning system and the public ownership structure deprived enterprises of any autonomy to manage their own operations, which led to 'puppet-like' enterprise management with extensive involvement of the government and traditional labour and personnel administration. Although the three parts of the

Maoist Chinese model were interrelated and interacted (as shown by arrows with both straight and dotted lines in Figure 4-1), their impact on enterprises and their management was generally one-way and top-down, as enterprise managers, especially HR managers, were merely instruction-followers and administrators. This model of traditional personnel and labour administration (henceforth referred to the traditional PRC model) is set out in Figure 4-1.

In Figure 4-1, traditional HR practices listed in the bottom box might exert some influence on the policy of personnel and labour administration, which is shown by the arrow with a dotted line. The traditional PRC model managed people in a way that was administrative and politically/ideologically oriented. The main features of traditional HR practices, as presented in the lowest box in Figure 4-1, include the classification of cadres and workers; government-conducted HR planning; the three iron practices; labour allocation for white- and blue-collar employees; the nomenclature system for cadres; seniority-based and egalitarian-oriented compensation and welfare, and politically/ideologically restricted HR practices such as cadre selection and promotion, performance assessment and training.

Figure 4-1 Traditional PRC model of Personnel and Labour Administration



Note:

→ Solid line indicates a direct impact;  
.....→ Dotted line indicates a mutual interaction.

Since the late 1970s, the central planning system and public ownership structure have been subjected to two types of economic reform - operational reform and ownership reform. Operational reform involved decentralisation and deregulation of the central planning system and a gradual separation of enterprises from government administration. Ownership reform has facilitated changes within public sector enterprises and the establishment of enterprises with mixed ownership forms. With the introduction of a modern enterprise system, enterprise management has been developed with fewer constraints imposed by the government and more autonomy granted. The management of human resources in the PRC has gradually moved away from the traditional HR practices. The literature review conducted in this thesis has highlighted a sea-change in HR practices in Chinese industrial enterprises. These include the recognition of concepts of Western-developed HRM, at least in terms of policy, by Chinese professionals and practitioners, and the adoption of some HR activities to various degrees, such as merit-based recruitment and selection, performance-linked compensation, and job-related training.

Increased research into HRM issues in the Chinese context has contributed to an expansion of knowledge in this area (e.g., Child, 1994; Jackson, 1992; Laaksonen, 1988; Nyaw, 1995; Tung, 1982; Von Glinow & Teagarden, 1988, 1990; Warner, 1987, 1993, 1995; Zhao, 1995). Most of these studies, however, were conducted through "direct investigations by Westerners" and were "qualitative rather than quantitative" oriented, and some of them were "problems and/or phenomena-centred, revealing cultural distinctiveness" (Xie, 1995: 25). There remains a dearth of research that systematically examines current human resource practices in terms of major HRM activities such as planning, staffing, appraisal, and compensation in Chinese industrial



enterprises through both quantitative and qualitative approaches, and especially, across enterprises with different types of ownership.

The literature has indicated that ownership structure has changed significantly in China's current transitional economy as a result of economic reform. The Chinese economy has changed from being dominated by state-owned enterprises into one where different ownership forms, including state-owned, collective-owned, private-owned, and foreign-invested enterprises, co-exist and compete (Peng, 1994). According to the U. S. Department of Labour (1990, cited in Shenkar, 1994: 21), the urban labour force in China consists of about 144 million workers. Of these, roughly 101 million are employed in state-owned enterprises, 35 million work for collective enterprises, 6.5 million are "individual workers", while 1.3 million are under other ownership, primarily foreign-invested enterprises. This raises the question of the extent to which the type of ownership has an impact on human resource practices. Shenkar (1994: 21) has argued that "management processes are radically different in the different types of enterprises", ownership types should be taken into account in our research. Similarly, Brewster (1995: 13) has emphasised the integration of external constraints such as "ownership structure, the role of the State" into the concept of HRM.

While the current literature looks at some of these HR practices and their effects on state-owned enterprises (e.g., Child, 1994; Jackson, 1992; Warner, 1995) and/or foreign-invested enterprises (e.g., Child & Lu, 1996; Goodall & Warner, 1997; Von Glinow & Teagardon, 1988, 1990), or examines the impact of ownership type on enterprise strategy and performance (Tan & Li, 1996; Xu & Wang, 1999), little

empirical research has been conducted to compare human resource practices across enterprises with various types of ownership. Xie (1995), in her study of HRM in China, has urged researchers to explore the influence of enterprise ownership on HR practices because the extent of the impact of ownership type upon HRM remains unresolved. Based on the issues that surfaced during the literature review, the following research questions for this thesis are posed:

1. How were human resources in Chinese industrial enterprises managed before and after the commencement of economic reform with respect to the major HR activities, including: human resource planning; recruitment and selection; performance appraisal; compensation and welfare; training and development; and labour relations?
2. What impact does ownership type have on HR practices in Chinese industrial enterprises?
3. What are the possible future development paths of HRM in Chinese industrial enterprises?

The above research questions are investigated and addressed in this thesis.

## **CHAPTER 5**

### **RESEARCH METHODOLOGY**

#### **5.1 Chapter Objectives**

To address the research questions raised at the end of Chapter 4, a framework for this study is developed in this chapter. There are three objectives in using this framework. First, to explain the rationale for the research methodology used by discussing the nature and purposes of the study as well as the logic of applying both qualitative and quantitative techniques. Second, to reveal the design of the case studies and how these studies were conducted. The procedures and general rules followed during the case studies are clearly stated in the case study protocol, including the case study objectives and questions, selection of case enterprises, data collection strategies, as well as data analysis and reports of case studies. The final objective is to elaborate on the utilisation of survey research covering the development and distribution of questionnaires and techniques used for survey data analysis. This discussion supports the application of both qualitative and quantitative approaches in achieving the objectives of this study.

#### **5.2 Rationale for the Research Methodology Used**

The research questions stemming from the literature review focus mainly upon the “what, how and why” of HRM in Chinese industrial enterprises, especially those with different types of ownership. The literature reviewed presents few theories or hypotheses to be tested, indicating that current HRM in Chinese industrial enterprises,

especially in the non-state sector, is an under-researched area. In this situation, an exploratory approach is the most appropriate method of analysis, as suggested by many researchers (e.g., Eisenhardt, 1989; Marshall & Rossman, 1989; Yin, 1994). To justify the methods utilised in this research, the focus and purposes of the study need to be specified first.

### **5.2.1 Focus and purposes of the study**

Based on the research questions, this study focuses on HR practices in Chinese industrial enterprises with different types of ownership, including SOEs, COEs, POEs and FIEs. The pre-reform personnel and labour administration is examined primarily in the context of SOEs and COEs, as POEs and FIEs have only been established and developed since the post-Mao reforms. The HR practices after Mao's regime (referred to as 'HRM' in this study to distinguish them from the traditional labour and personnel administration) are investigated across the four types of enterprises and across the major HR activities.

The purposes of this study are threefold. First, this study aims to investigate and describe how human resources in the Chinese industrial sector are managed with respect to the six major HR activities as defined in the West (Schuler et al., 1992). These activities include human resource planning, recruitment and selection, performance appraisal, compensation and welfare, training and development, and labour relations. During this investigation, the effects of the economic and enterprise reforms on HRM are analysed and highlighted. Second, it attempts to explore the impact of changed ownership structure upon HR practices in enterprises with heterogeneous ownership types, i.e., SOEs, COEs, POEs, and FIEs. To be more

specific, this exploratory empirical study will test whether ownership type has an impact on HRM and the extent to which HR practices are affected. Third, this study suggests probable future trends for the development of HRM in China's industrial sector.

To achieve these aims, a combined method involving both qualitative and quantitative approaches is employed. The logic underlying these approaches is discussed in detail in the next two sections.

### **5.2.2 Qualitative approach – literature review and case study**

The qualitative approach, as defined by Van Maanen (1979: 520), is an umbrella phrase “covering an array of interpretative techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning of naturally occurring phenomena in the social world”. The essence of such an approach is thus to seek “an in-depth and rich description of specific cases based on the belief that this is the best way to know about some aspect of organisational life” (Schmitt & Klimoski, 1991: 117). Schmitt and Klimoski have suggested types of research where the qualitative approach is appropriate, such as research attempting to gain familiarity or insights into a phenomenon, or to accurately portray the characteristics of a phenomenon that is as yet to be fully described (1991: 122). Since these types of research correlate well with the current study, a qualitative approach including literature review and case study was adopted.

The first step in a qualitative research project is usually to review relevant literature so as to ensure that the value of the study is “derived as much from how it fits with and

expands on previous work as from the study's intrinsic properties" (Cooper, 1984: 9). As a literature review interprets and synthesises previous research in the area, it can provide a foundation (i.e. a theoretical framework) for the new research, specify the area of knowledge that the study will expand or explore, and develop sharper and more insightful questions on the topic (Marshall & Rossman, 1989; Yin, 1994). Merriam (1998) has also pointed out that the literature review can contribute to formulating research questions, answering specific design queries, and theory-building when specific findings are linked to previous work. Following the suggestions of these researchers, a comprehensive review of relevant literature was undertaken for this study as shown in Chapters 2, 3 and 4. Based on the literature review, research questions for this thesis were identified and research methods were selected accordingly.

As indicated by the research questions, this study is "interested in insight, discovery, and interpretation rather than hypothesis testing" (Merriam 1998: 28), and it intends to investigate a contemporary phenomenon (HR practices in the Chinese industrial sector) within its real-life context (enterprises that are in the centre of the reforms of economic system and management practices and belong to different types of ownership) when the boundaries between phenomenon and context are not clearly evident (Yin, 1994: 13). Given the exploratory, real-life and process nature of the research, the case study method is the most appropriate because of its distinct attributes.

The first attribute of the case study is that it is "a research strategy which focuses on understanding the dynamics present within single settings" (Eisenhardt, 1989: 534)

like the Chinese industrial sector. Second, it requires immersion in the everyday life of the selected context in order to produce an in-depth and multifaceted investigation, and third, it usually relies on multiple sources of data to describe and analyse a particular phenomenon (Orum, Feagin & Sjoberg, 1991). Finally, this method can assist researchers to grasp holistic patterns of social phenomena in real settings (Orum et al., 1991) and is helpful in generating a grounded theory (emergent theory based on observations) that is relevant and useful (Eisenhardt, 1989; Glaser & Strauss, 1967). Therefore, the case study method was selected to fulfil the requirements of being descriptive, explorative and theory-building (e.g., Eisenhardt, 1989; Sutton, 1997; Yin, 1994).

Although the case study method can derive its rigor from “the researcher’s presence, the nature of the interaction between researcher and participants, the triangulation of data, the interpretation of perceptions, and rich, thick description” as noted by Merriam (1998: 151), its limitations (including issues of validity, reliability and generalisability) need to be carefully managed (Yin, 1994). Many researchers have suggested tactics to overcome these weaknesses and thus improve the quality of the case study method. Examples of such include: following the replication logic by undertaking multiple-case studies to strengthen its generalisability (Eisenhardt, 1989, 1991; Miles & Huberman, 1994; Yin, 1994), having a well-designed case study protocol to increase its reliability (Yin, 1993, 1994), and adopting triangulation to enhance its validity (e.g., Bloor, 1997; Marshall & Rossman 1989; Snow & Anderson, 1991). These tactics and some others selected for this research are discussed later. To further strengthen the results derived from the case study method, this research also adopted the quantitative approach, which is detailed in the next section.

### **5.2.3 Quantitative approach – survey research**

While the case study method relies heavily upon qualitative data obtained from interviews, observations, and documents, “quantitative data from surveys or other instruments can be used to support findings from qualitative data” (Merriam 1988: 68). Merriam has further claimed that quantitative data are obtained from “the quantification of a quality”, that is, instead of describing the nature of a belief, attitude, event or behaviour, emphasis is placed on “measuring the extent to which it exists”, and hence “quantitative data can tell us how many, how much, and how it is distributed” (1988: 68). Similarly, Eisenhardt believes that the combination of qualitative with quantitative evidence can be highly synergistic, as “quantitative evidence can indicate relationships which may not be salient to the researcher”, while “the qualitative data are useful for understanding the rationale or theory underlying relationships revealed in the quantitative data” (1989: 538). While Halfpenny (1979: 799) listed major features of qualitative and quantitative methods, with the former characterised by case studies and being “soft, flexible and subjective”, and the latter featuring surveys and being “hard, fixed and objective”, Marshall and Rossman (1989: 103) advocate that “weaknesses in one strategy can be compensated for by the strengths of a complementary one”.

To achieve the benefits of such a combination, this research used survey questionnaires in addition to multiple-case studies to collect data from relatively large numbers of managerial and non-managerial employees working in the four major types of enterprises (SOEs, COEs, POEs, and FIEs). The survey questions covered the main HR activities and addressed the research questions that were more quantitative in nature, such as the extent to which current and future HR activities are and should be



conducted and the perceived effectiveness of HR practices. These data support the case study analysis in four ways, as noted by Sieber (1982). First, the data help correct the “holistic fallacy by guarding the researcher against the assumption that all aspects of a situation in the case study fit an emerging theory. Second, the data can be used to support a generalisation made from a single or limited case study. Third, observations based on fieldwork can be verified. Finally, “survey results can cast a new light on field observation, or more precisely, the serendipitous nature of some survey findings can illuminate a field observation that was hitherto inexplicable or misinterpreted” (Sieber, 1982: 187).

### **5.3 Design and Conduct of the Case Study Approach**

This research used a multiple-case or comparative case design. The rationale was to use replication rather than sample logic to overcome the limitations of generalisation from a single case study (Yin, 1993, 1994). Eisenhardt (1989, 1991) has claimed that multiple-cases are a powerful means of creating theory because they permit replication and extension of individual cases. Replication allows individual cases to be used for independent corroboration of specific propositions, which helps researchers to perceive patterns more easily and eliminates chance associations. Extension enables researchers to use multiple-cases for developing a more elaborate theory (Eisenhardt, 1991: 620). Other researchers (e.g., Herriott & Firestone, 1983, Miles & Huberman, 1994) believe that the evidence from multiple-cases is more compelling as it can strengthen the validity and stability of the findings.

As this study is exploratory in nature, the strengths of multiple-case study would assist in achieving the research objectives. Therefore, case studies were conducted in four manufacturing enterprises to investigate current HR activities, to compare these activities across the four types of enterprises and to explore the impact of reforms and ownership on these activities. Conducting multiple-case studies requires a rigorous methodology including a thorough understanding of the research questions, well-designed protocols and instruments, as well as appropriately selected cases (Eisenhardt, 1989, 1991; Yin, 1994).

Following Eisenhardt (1989) and Yin (1994), a case study protocol was prepared at an early stage to help document the entire research procedure, and more importantly, to facilitate the comparative study across major HRM functions in this multiple-case design. The protocol contains four main parts: case study objectives and questions; the selection of case enterprises; data collection strategies including documentation, interview and observation; and finally, a guide for the case study analysis and report. The protocol is essential in the quality control of a case study because it is regarded as a “major tactic in increasing the reliability of case study research” by reducing the errors and biases in a study (Yin, 1994: 63). Each part of the protocol is detailed below.

### **5.3.1 Case study objectives and questions**

The case study objectives were derived from the overall research objectives proposed at the end of Chapter 4. Based on the theoretical framework stemming from the literature review, three major objectives were established for each case: 1) to describe current practices of HRM in the enterprise investigated in terms of the six major

activities as defined in the Western-developed HRM; 2) to explore the impact of ownership types on HR practices; and 3) to describe and analyse probable paths of HRM development in the future as a result of reforms.

With these objectives in mind, a list of semi-structured questions was prepared to achieve consistency in the investigations across the four case enterprises. In order to identify the actual HR practices in each enterprise, the first group of questions covered the background information on the enterprise, including its ownership type, history, size, structure, business strategy and its perceived role of the human resource function. The subsequent questions were related to management of human resources in the past (where available) and at present with respect to the six major HR activities. The final questions tried to identify the perspective of managers and employees with regard to the future trend of HRM in the enterprise (see Appendix I).

When designing these questions, the researcher followed the three suggestions of Foddy (1993: 189-93) to improve their quality. First, the questions were properly defined and explained so that each respondent could understand what was being asked. This is particularly important in this research as many concepts and practices in HRM originated in the West. Technical jargon and HRM terms were either removed or, if possible, replaced by local colloquial equivalents. Second, the applicability of the question to each respondent was established, so they were not being asked to give information that they did not have. To ensure such applicability, each question was accompanied by a list of probable sources of evidence, such as interviewees at different levels of the enterprises (Yin, 1994: 69). Third, the researcher tried to specify

the types of perspectives that respondents could adopt when framing their answers. This was often necessary when open questions were asked.

### **5.3.2 Selection of case enterprises**

The unit of analysis in this research is the manufacturing enterprise. The selection of appropriate enterprises depends on research access (Yin, 1994) and the presence of enterprise attributes that are essential to the research (LeCompte, Preissle & Tesch, 1993). This requires a “criterion-based selection” (LeCompte et al. 1993: 69) or a “purposeful sampling” (Patton, 1990: 169). Patton has argued that “the logic and power of purposeful sampling lies in selecting information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the research” (1990: 169). Furthermore, for the purpose of control, it is important to compare “partially similar cases” (Shenkar & Von Glinow, 1994: 69). Tan and Li (1996) have also claimed that it is possible to control for the industry effect by selecting enterprises that are of multiple ownership types but compete within the same industry. Therefore, prior to selecting case enterprises, a criteria list was prepared, including accessibility; location (in well-developed industrialised cities so as to be representative); the industrial sector (manufacturing); ownership structure (one for each major type, i.e. state, collective, private and foreign-invested); size (small to medium, because private-owned enterprises in China tend to be in this size category); and operational period (more than two years of operations to enable establishment of formal structure and business operations).

Initial access to the enterprise was obtained through personal contact. The researcher first contacted a product division manager at an Australian company which had invested extensively in China (by the end of 1994 this company had established 8 joint ventures in China, including a joint venture called CableCo<sup>15</sup> in Tianjing, China). The division manager, who was heavily involved in the establishment and businesses of CableCo, showed great interest in the research project and agreed to introduce the researcher to senior managers of CableCo in China. He also suggested that a SOE, TeleCo (owned by the Chinese parent company of CableCo), be considered for another case study. A comparison between these two companies would be facilitated by the fact that they were located in the same city, of a similar size, involved in the same industry and manufactured similar products, and only differed in their ownership type. The researcher contacted senior managers of both enterprises by fax and phone to explain the purpose and nature of the research, and sent them the list of research questions to be used in the case study. Both enterprises showed their willingness to participate in the study and structured schedules for a field study (one week at each enterprise).

After selecting CableCo as a FIE case and TeleCo as a SOE case, the researcher established access to two other enterprises, again through personal contact. They were RadioCo, a COE manufacturing radio products, and ElectroCo, a POE producing electronic equipment. These two enterprises, located in another industrialised city (Nanjing, China), were in a similar industry and of a similar size to CableCo and TeleCo. The heads and senior managers of the two enterprises all showed interest and

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<sup>15</sup> The companies in this thesis have been disguised to respect confidentiality and protect the anonymity of parties concerned.

promised to offer full support to the research. This is particularly important in China where personal relationship (*guanxi*) is regarded highly (e.g., Bian, 1994; Luo, 1997; Xie, 1995; Xin & Pearce, 1996). The researcher was able to spend one week in each enterprise to conduct the case study. The details of each case study conducted in these four enterprises are presented in Chapters 6-9.

### **5.3.3 Data collection strategies**

Researchers have claimed that the adoption of methodological triangulation that combines dissimilar techniques to study the same unit can help overcome unique deficiencies of each method, as different methods may complement and supplement each another and thus enhance the validity and reliability of one's study (e.g., Denzin, 1989; Merriam, 1988, 1998; Silverman, 1997; Snow & Anderson, 1991; Yin, 1994). Marshall and Rossman (1989: 146) have noted that the use of triangulation to bring more than one source of data to bear on a single phenomenon can enhance a study's generalisability as the data can be used to corroborate, elaborate, or illuminate the research. Following the logic underlying triangulation, three major data collection strategies were adopted in each of the four case studies, i.e. documentation, interviewing and direct observation.

*Documentation* includes reviewing the documentary information relevant to this study, such as the enterprise brochure; employee handbook; enterprise policies and regulations, especially those relating to human resource practices (e.g., selection criteria and procedure, performance assessment guidelines and forms, and labour contract used); job description handbook; internal newsletters; enterprise official history book (*chang zhi*) and news from published sources (newspaper, magazine or

journal, where available) about the enterprise. Not all these documents were available for every enterprise, and the POE investigated (ElectroCo) had the least written materials of all four case enterprises. However, the documentary evidence that could be obtained helped the researcher to further understand the information obtained from other sources (such as interviews) (Merriam, 1988, 1998). These documents were used in conjunction with information obtained from interviews and observation, offering different perspectives and verification of the same phenomenon (Yin, 1994).

*Interviews* are used “to gain insights regarding how individuals attend to, perceive, or otherwise deal with some phenomenon of interest” (Schmitt & Klimoski, 1991: 139). They are one of the most important sources of case study information because of their dynamism, flexibility and convenience for follow-up questions or interviews (Marshall & Rossman, 1989; Schmitt & Klimoski, 1991; Yin, 1994). However, willingness to be interviewed is critical for effective interviews with local people in China, and gaining such willingness requires trust, rapport and co-operation between the interviewer and interviewees. As the interviewer, i.e., the researcher, is a native speaker of Mandarin and has over three decades of personal experience in China, her bilingual skills and clear understanding of the sensitivity of political and cultural issues are essential for rapport to be developed. During the interview process, the researcher followed Schmitt and Klimoski’s (1991: 141) suggestions to encourage interviewees to actively participate in the interview and to be responsive.

First, each interview started with an introduction to the researcher/interviewer, and then a description of the research project, explaining the purpose and nature of the study and assuring the anonymity of every interviewee. The researcher emphasised

that participation and co-operation of interviewees were fundamental to the conduct of the research. This could help maintain interviewees' interest during the interview if they felt their answers and opinions were valued (Moser & Kalton, 1983: 271-2). The researcher's explanation could also help them to perceive value of the research, or at least reassure them that no negative consequences would arise from the interview.

Second, Schmitt & Klimoski (1991) suggested that to establish rapport in a face-to-face interview, the researcher should empathise with and demonstrate respect for the interviewees without taking sides on issues, minimise status differences in dress and language use, and listen attentively. With over 10 years of teaching experience in an adult tertiary institution attached to a large-scale enterprise in China, the researcher was able to conduct the interviews according to these suggestions and did not experience any difficulties in developing a mutual trust "that allows for the free flow of information" (Spradley, 1979: 78).

Third, the topic and questions should be selected and the format be designed to suit different interviewees. Based on the case study questions, the interview questions were grouped into two categories, one for managerial staff and one for non-managerial employees. This made questions relevant to the specific interviewees. The questions were mainly open-ended to elicit both information and opinions (Yin, 1994), and to allow for follow-up questions. During the interview, the funnel technique (Bouchard, 1976) was used by asking open-ended general questions first and then narrowing down to the specifics to allow interviewees to provide basic descriptive information about HR activities and their perceptions, opinions and other specific comments.



The format of interview was semi-structured to allow people to answer more in their own terms than a standardised interview permits (May, 1997) and to provide information as they wished (Denzin & Lincoln, 1994). This format allowed a common set of questions to be asked of all interviewees to obtain specific information, while additional issues to be explored could be raised, using flexible wording according to the development of the interview. This format enabled the researcher to respond to the situation at hand, to the emerging view of the interviewees, and to new ideas on the topic (Merriam, 1988, 1998). Interviews were conducted individually for all senior managers and middle level managers, and in groups of 2-3 for people of similar occupation and status, such as production workers, supervisors or engineers. A group interview organised in this manner can avoid “stylised response and deference to the senior member of the group” and encourage each individual to offer their private (or inconsistent) thoughts (Schmitt & Klimoski, 1991). Compared with individual interviews, the group interviews might produce different perspectives on the same issues, but they could “provide a valuable insight into both social relations in general and the examination of processes and social dynamics in particular” (May, 1997: 114). This method was also efficient in the face of time constraints.

The final issue concerned the setting of the interviews. In order to be free from distractions and interruptions, and more importantly, to maintain confidentiality, all interviews were conducted in the enterprise meeting room behind closed doors. A tape recorder was not used as Schmitt and Klimoski (1991: 145) have observed that the awareness of being recorded usually creates a mind set that everything said is “for the record” and can have inhibiting effects. This is particularly true in the Chinese setting where personal files are held and controlled by management. As suggested by Warner

(1991), interviewees might be more frank with the interviewer in the absence of a tape recorder.

People interviewed included the number one senior manager of the enterprise (usually called a general manager in a FIE and POE, and a director in a SOE and COE), other senior managers (e.g., deputy general managers or deputy directors), department heads, some supervisors, technical staff and production workers. The details of interviewees are listed in the relevant chapters. The combination of interviewees working at different levels of the enterprise, together with the attention paid to the issues raised above, all helped to reduce the limitations of interview, such as problems of bias and poor or inaccurate articulation as pointed out by Yin (1994).

The last strategy used for data collection was *observation*. The researcher stayed for one week (six working days, as was the practice in China in 1994) in each of the four case enterprises, visiting both department offices and shop floors, talking with employees at job positions (when permitted by line managers), attending meetings for management and employees, and whenever possible having lunch in the enterprise canteen with managers and employees to engage in informal and friendly conversations. These observations were recorded in the field notes as part of the data logging process (Lofland & Lofland, 1995), including descriptions, direct quotations and observer comments. The direct observation helped the researcher to understand each case individually and in as much depth as is feasible (Eisenhardt, 1989). It was also useful in providing additional information, such as firsthand accounts of the situation under the study (Merriam, 1988, 1998; Yin, 1994).

### **5.3.4 Data analysis and reports of case studies**

Data analysis, to use an analogy, is a process of “moving up from the empirical trenches to a more conceptual overview of the landscape. We’re no longer just dealing with observables, but also with unobservables, and are connecting the two with successive layers of inferential glue” (Miles & Huberman, 1994: 261). To be more straightforward, it is “a process of making sense out of data”, i.e. to identify categories or themes and to seek patterns in the data (Merriam, 1998: 192). Data analysis occurs simultaneously with data collection, because analysis begins with the first interview, the first observation and first document read, which indicates “an interactive process throughout that allows the investigator to produce believable and trustworthy findings” (Merriam, 1998: 151). Yin has further noted that data analysis “consists of examining, categorising, tabulating, or otherwise recombining the evidence to address the initial propositions of a study” (1994: 103).

As Yin (1994) has suggested, the first step in data analysis was to examine the case study database, which included relevant document records, interview transcripts, field notes and the researcher’s own comments and memos. In this step, “information is edited, redundancies are sorted out, parts are fitted together, and the case record is organised for ready access either chronologically and/or topically” (Patton, 1990: 387). This procedure was followed by the categorisation of collected data “in order that the events, relationships and interactions observed may be understood or explained within the context of a developed theoretical framework” (May, 1997: 147). The categories used in this study reflected the objectives of the research, i.e., to describe current and future HR practices in China’s enterprises and to explore the impact of ownership on such practices. This categorisation enabled the researcher to substantiate, revise and

reconfigure tentative findings identified at the initial stage of data analysis (Merriam, 1998).

Based on the case study objectives and questions, a standardised outline for each case study was prepared. Following this outline and incorporating all categorised data, the case report was drafted, and each individual case study “consists of a ‘whole’ study, in which convergent evidence is sought regarding the facts and conclusions for the case; each case’s conclusions are then considered to be the information needing replication by other individual cases” (Yin, 1994: 49). As each case report was completed before conducting the next case study, the researcher was able to become familiar with each case as a “stand-alone entity”, and the process of analysing and writing up the case allowed “the unique patterns of each case to emerge before investigators push to generalise patterns across cases” (Eisenhardt, 1989: 540).

After each draft report was completed, the draft was sent to key interviewees (the senior manager of the enterprise and manager in charge of HRM) for factual verification and further comment. In some situations the researcher needed to seek further evidence because of discrepancies between the key interviewees and the data obtained. After the corrections and comments were incorporated, another draft was sent to key interviewees for a final review. Although this validating procedure was time-consuming, it enhanced the accuracy of the case study, “hence increasing the construct validity of the study” (Yin, 1994: 146). The data analysis and the draft case study report laid the foundation of the four case study analyses that are presented in Chapters 6 to 9.

Cross-case analysis was conducted after the completion of the four separate cases. Each case study analysis was compared with the research questions and the literature reviewed, and then a comparison of the four cases identified their similarities, differences and emerging patterns. The data obtained from the survey questionnaires were also utilised for cross-case analysis. The combination of qualitative and quantitative evidence in cross-case analysis was used to avoid narrow and idiosyncratic theory and hence “to raise the level of generality of the theory” (Eisenhardt, 1989: 547), and also “to build a general explanation that fits each of the individual cases, even though the cases will vary in their details” (Yin, 1994: 121). The cross-case analysis is discussed together with survey results in Chapter 11.

## **5.4 Survey Research**

Survey research was utilised in this study to maximise the benefits of the combined qualitative and quantitative approaches. This part briefly introduces the development of survey questionnaire, conduct of the survey and techniques used in survey data analysis. Details are presented in Chapter 10.

### **5.4.1 Development of questionnaire**

The survey questionnaire builds upon the work of Von Glinow and colleagues on best international HRM practices and includes a wide range of topics relating to HRM, such as staffing, performance appraisal, compensation and welfare, training and development, and employee participation (Teagarden et al., 1995; Von Glinow, 1993). Some researchers have argued that the validity of questionnaires designed in the West for non-Western societies such as China is open to question, especially when

translation is required (Shenkar, 1994; Xie, 1995). To minimise such problems, as is recommended for international research (Cavusgil & Das, 1997), the researcher, with bilingual skills and personal experience in China, verified the translated questionnaire. Some alterations were made in the Chinese version to specify certain terms used (e.g., HRM is used together with personnel and labour administration, and interpersonal ability is specified as the ability to work with other colleagues), and to reflect local management practices (e.g., with regard to recruitment of employees, labour sources are included to see whether there is a legacy of the old allocation or replacement system, and the bonus system is also added as an important part of compensation). A simplified set of characters as commonly used in China was adopted<sup>16</sup>. The revisions in the questionnaire content and format helped the Chinese respondents to better comprehend the questions and increased the suitability of the survey to the Chinese context.

The questionnaire covered three major areas, including background information about the enterprise and respondent, current status of the HRM or personnel and labour department, and practice of some HR activities. These items were all close-ended questions, but respondents could add their comments and suggestions at the end of the questionnaire (see Appendix II). The results of the survey questionnaire are discussed in more detail in Chapter 10.

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<sup>16</sup> The previous translated questionnaire used the traditional (also called complicated) Chinese characters that are still used by Chinese people outside the mainland of China, such as Hong Kong, Taiwan and Singapore. A new (also called simplified) set of Chinese characters have been developed and utilised by Chinese of the PRC since 1950s.

#### **5.4.2 Conducting the survey**

The surveys were distributed to 850 managers and employees in the manufacturing enterprises with four types of ownership and conducted by the researcher in three major Chinese cities (Shanghai, Nanjing and Tianjing) during 1994 and 1995. These cities were selected because of accessibility and their representativeness of most industrialised cities in China.

In the 1994 survey, the researcher visited 12 enterprises (4 SOEs, 2 COEs, 2 POEs and 4 FIEs) and had a short meeting with both the general manager and manager in charge of human resource (called HR manager in this study) in each enterprise, explaining to them the nature and purpose of the survey and giving each of them a copy of the questionnaire to fill in. Then as agreed, the HR manager recommended 10 to 20 people (depends on the size of the enterprise) to participate in the survey, including managers, engineers and workers from different departments of that enterprise, and arranged a time for them to meet with the researcher.

At the meeting, the researcher outlined her background, explained the purpose and importance of the survey and answered participants' questions. The most typical concern of the respondents was the disclosure of their views. This fear is understandable considering the frequent political purges that people have suffered since the founding of the PRC and the cultural impact of these purges and traditions on people's behaviour (e.g., the emphasis on collectivism and harmony; see Xie, 1995 for example). To reduce such fears and avoid any uncertainty, it was stressed at the meeting that all answers would be kept strictly confidential. Anonymity would be achieved by sealing each questionnaire in an envelope to be collected personally by the

researcher or by the respondent's friend (who then forwarded the sealed envelope directly to the researcher).

The “snowball, chain or network sampling” method (Merriam 1988, 1998) was then introduced at the meeting for further distribution of the questionnaire. This meant each participant was given an extra 3 to 4 questionnaires to give to (and also collect from) their friends or acquaintances through their network while obeying three conditions. First, these people should work in a manufacturing enterprise with any type of ownership. Second, it was preferred that they work in different enterprises, and respondents were required only to write down the name of the enterprise. Finally, these participants should pass on to them the researcher’s explanation about the survey. The researcher revisited each of these enterprises after two weeks to collect those completed questionnaires as promised. Although this was a very time-consuming process, the researcher was rewarded with an almost 50 percent response rate (390 usable questionnaires out of 800 distributed).

In the 1995 survey, the same questionnaire was distributed to 50 managers from the manufacturing sector who attended a management training course offered by the researcher in Shanghai. Due to time constraints, it was impossible to try the snowball sampling method again. However, all 50 respondents returned usable questionnaires and many contained interesting written comments. Therefore, the final response rate for surveys conducted in 1994 and 1995 was 51.8% (440 out of 850).



### **5.4.3 Techniques used for analysing the data**

Analysis of survey data was conducted using the Statistical Package for the Social Sciences (SPSS) computer program. In addition to calculating frequency and means of some descriptive items, a factor analysis was utilised to identify clusters of related items (Kline, 1994) when groups could not be categorised in advance. This helped to combine some items that were highly correlated for analysis rather than to examine them individually, and to construct informative scales. Furthermore, various techniques were employed for different purposes. For example, paired-sample t-tests were conducted to compare the gap between the current and ideal practices of some HR activities, and t-values obtained subsequently indicated whether such differences were statistically significant. Spearman rank-order correlations were calculated between perceived effectiveness of some HR practices and enterprise performance. In order to explore the impact of ownership on HR practices, a multivariate analysis-of-variance (MANOVA) and one-way analysis of variance (ANOVA) were conducted based on the values (means and standard deviations) of variables. In the situation where only the percentage of HR practices were available, chi-square tests were employed to analyse differences among the practices across the four major types of ownership. Respondents' comments and suggestions for HR practices in China were categorised and incorporated into the discussion of the survey results.

### **5.4.4 Limitations of the data**

Although the overall response rate was quite high at nearly 52%, the data have two major limitations. First, some HR practices noted in the questionnaire were not used in the enterprise, or employees were not aware of these practices, so they simply left some questions unanswered. For example, in some enterprises performance appraisal

was solely conducted by managers without employees' knowledge as discussed in one of the four case studies (i.e., CableCo, see Chapter 9).

Second, in the survey there were many questions asking about current practices (classified into 'is now' questions) and ideal practices in the future ('should be'). If only one part of the question – 'is now' or 'should be' – was answered, then the answer could be incomplete and excluded from some processing such as the paired-sample t-tests. Some respondents had no idea about what should be ideal HR practices in the future, and only answered the 'is now' questions. As a result, sample size varies for some items because of missing data.

## **5.5 Summary**

This chapter has explained why and how qualitative and quantitative approaches were employed in the research. Following the experience and suggestions of many researchers (e.g., Eisenhardt, 1989, 1991; Schmitt & Klimoski, 1991; Merriam, 1998; Yin, 1993, 1994), multiple-case studies were conducted to provide firsthand evidence on how human resources were managed in terms of the major HR activities. Furthermore, survey questionnaires were used to gain more information on the current situation of HR practices in the industrial sector and to help explore the impact of ownership on such practices. The research methods employed in this study all helped to provide empirical evidence for achieving the study objectives, i.e. to enhance the understanding of HRM in China; to explore the impact of ownership on HRM; and to propose a HRM model for the industrial sector in China.

## **CHAPTER 6**

### **CASE STUDY 1: HR PRACTICES IN AN STATE-OWNED ENTERPRISE**

#### **6.1 Chapter Objectives**

To address the research questions raised in this study, a qualitative case study approach was employed for this chapter through to Chapter 9. The objectives of this case study were as specified in Chapter 5 (Section 5.3.1), namely: 1) to describe current HR practices in Chinese enterprises with different types of ownership (this chapter focused on state ownership) with respect to six major HR activities: human resource planning, recruitment and selection, performance appraisal, compensation and welfare, training and development, and labour relations; 2) to explore the impact of ownership types on HR activities; and 3) to describe and analyse probable paths of HRM development in the future as a result of reforms. The pre-reform personnel and labour administration was also examined briefly in this case study as the case enterprise, TeleCo, started its operation under Mao's regime.

As in all the case study chapters, a brief review of the enterprises with a particular type of ownership is presented first, and then the data collection methods in the case study are detailed. The actual case study begins with an overview of the selected SOE, TeleCo, including its history and ownership, size and structure, and business strategy as well as the emerging role of the human resource function in the enterprise. Following the background information is a description and analysis of HR practices in TeleCo, with emphasis on the six major HR activities. The findings from this case study are

summarised and their contributions towards the research objectives are discussed at the end of the chapter.

## **6.2 State-owned Enterprises (SOEs) in China**

As discussed in Chapter 2 (see Section 2.2), private ownership of the means of production was transformed to public ownership soon after the founding of the PRC in 1949, and “a hegemonic state-owned sector” emerged since the mid-1950s (Jackson, 1992: 55). This is mainly because “the fundamental economic basis of the traditional socialist political superstructure, of the monolithic and bureaucratic party state and party dictatorship, is precisely the system of state ownership, i.e., a state monopoly on the means of production” (Talas, 1991: 330). According to Yang (1992: 52), in 1980, state-owned enterprises possessed 90% of the nation’s total industrial fixed assets, employed 69% of the country’s total industrial population, and produced 76% of the national gross industrial output by value.

State-owned (*guoyou*) enterprises (SOEs), referred to officially as ‘enterprises owned by the whole people’, used to be called ‘state-run’ or ‘state-operated’ (*guoying*) enterprises during Mao’s regime. These terms reflected the true nature of this type of enterprises before the reforms as they were under the direct management and administration of the state (Yang, 1992). Assets in SOEs are legally owned by the people of the nation, which in theory are represented by the state. Being the owner and administrator of state assets, the government maintained an administrative rather than economic relationship with SOEs under a command economy (see Section 3.3.1). This relationship was characterised by three “unified practices” conducted by the state, i.e.

unified purchasing of materials and selling of products (*tonggou tongxiao*); unified receipts of earnings and allocation of expenditures of enterprises (*tongshou tongzhi*); and unified allocation of human resources to enterprises (*tongbao tongpei*) (Xiao, P. 1994: 53; also see Sections 3.2.1 and 3.3.2).

Because of these unified practices in a central planning system, Chinese SOEs demonstrated three distinct features as summarised by Walder (1986). First, SOE's "financial performance was directly affected by negotiations with state planning agencies over its prices, costs, supplies, capital investment, credit, and taxation" rather than by its business operations (Walder, 1986: 28). In this situation, the enterprise was constrained by its resources rather than demand, because whatever it produced would be distributed by the state. Second, the enterprise was a mini-society. It administered for the state its labour insurance and social security provisions, and supplied a wide range of public goods and services to its employees. These welfare obligations ranged from housing, cultural and recreational facilities such as libraries, schools and gyms, to barber shops and bathhouses (Ishihara, 1993: 28). Third, the enterprise was also a political institution which had to perform a variety of socio-political services for its employees, such as providing permission to travel or get married and handling residency permits.

This type of ownership gave the state "the legal authority to reallocate the control rights over and residual claims" from SOEs, even if the rights had been delegated to lower levels of government (Qian & Weingast, 1997: 258). As indicated in Section 2.2.3, a SOE could be subordinated to the central government during a centralisation period and to a municipal government in a decentralisation period. However, the administrative relationship between the government and SOEs remained unchanged

regardless of centralisation or decentralisation. While state ownership enabled the government to pursue its heavy-industry-oriented development strategy (see Chapter 2), SOEs, as the foundation of the planned economy, became the favoured recipient of government support, and were heavily subsidised and staunchly protected by the state (Warner, 1996a, 1996b, 1996c). As a result, there were few budget constraints for SOEs, as observed by many researchers (e.g., Hay, et al., 1994; Kornai, 1980, 1986; Naughton, 1996; Walder, 1986; also see Chapter 4). This level of protection encouraged the development of related problems such as overstaffing and low efficiency (e.g., Lo, 1997; Wu, Y. 1996; Zhu & Dowling, 1994).

When ownership reform started in the 1980s as one of the two major economic reforms, it had two aims (Dong, 1992). One was to reform the existing ownership structure and the other was to reform state ownership *per se*. The reform of the ownership structure resulted in an upsurge and flourishing of non-state enterprises with various types of ownership, which in turn created intense competition between state and non-state enterprises (see Section 3.2.4). In 1984 the State Council promulgated the ‘Provisional Regulations on Further Extending the Decision-Making Power of the State Industrial Enterprises’, offering SOEs more autonomy and due rights in their business operations (see Section 3.2). In 1992, the government decided to steer SOEs further into the market, holding them responsible for their own profits and losses, even in the face of bankruptcy (*Beijing Review*, 30 March 1992: 4). After the 14<sup>th</sup> Party Congress in 1992, the term “state-owned enterprises” formally replaced “state-run enterprises”, indicating the government’s intention to withdraw from enterprise management (*People’s Daily*, 2 December 1992: 2; Wong, 1993: 35).

In spite of the reform of SOEs, they still carried burdensome social mandates and restrictions and required huge state subsidies, with many remaining inefficient (Jefferson & Singh, 1997; Perkins, 1995; Qian & Weingast, 1997). Yabuki (1995: 49) reported that in the early 1990s, the labour productivity of foreign-invested and private-owned enterprises was over three times that of SOEs. Perkins (1995: 2) has also noted that in 1985 only 10% of SOEs were making losses, but this had increased to 32% by 1990 and approximately 50% in early 1994. The share of gross value of industrial production contributed by SOEs had fallen to 48% by the end of 1992 (Warner, 1995: 63). However, they received about 90% of the total subsidies in 1992 in addition to subsidies disguised as loans (Qian & Weingast, 1997: 259-60).

Although the number of SOEs have been declining and the non-state sector has grown rapidly since the reforms, ownership reform in SOEs is still regarded as critical because of their important role in the national economy (Dong 1992; Jefferson & Singh, 1997). In 1994, SOEs employed 75% of the urban industrial workforce, absorbed 57% of new investment and received 70% of bank loans (Mai & Perkins, 1997: 7). Apart from this economic role, public ownership (including state and collective) has always been emphasised by the Party and government as a dominant form of ownership and regarded as “the key characteristic distinguishing the socialist market economy” proposed in China (Liew, 1997: 87). Therefore, SOE reform, aiming at marketising rather than privatising state enterprises, was listed as the focus of reform and development in the 1990s (Dernberger, 1997; Lo, 1997). The new SOEs’ reform initiatives introduced in 1994 emphasised two major tasks: the introduction of a modern enterprise system through corporatisation and shareholding, and the restructuring of SOEs (Chai & Docwra, 1997). While the former aimed to transplant the Western public enterprise model into China so

as to enhance its internal efficiency, SOEs also needed restructuring in order to reduce their debt burden, shed their surplus labour, divest themselves of their community services provision obligations, and allow the state to withdraw from the ownership of competitive industries (see Section 3.4).

The progressive reform of SOEs has profound implications for HR practices in SOEs as discussed in Chapter 4. While Zhao (1994: 7) has noted that Chinese SOEs, especially large and medium-sized ones, “have the full stereotypical apparatus of Chinese labour-management relations with a consistent set of personnel practices”, Mai and Perkins (1997: 17) have observed that “one of the core problems of SOEs is their poor personnel management”. Child (1995: Chapter 9) has also pointed out that the concept of Western HRM is not found in Chinese enterprises, particularly SOEs. However, some researchers (e.g., Verma, Yan & Chen, 1995; Warner, 1995) have observed that HR practices in SOEs are gradually moving away from the traditional personnel and labour administration activities, even though current practices are still “more operational (wage, social welfare calculations) than strategic” (Benson, Debroux & Yuasa, 1998: 13). The TeleCo case study is used to illustrate how employees are currently managed in a SOE.

### **6.3 Data Collection Methods**

As explained in Section 5.3.3, the methodological triangulation that combines dissimilar techniques to study the same unit was adopted in each case study. This meant three data collection strategies were used in this case: documentation, interviewing and direct observation. Documentation included TeleCo’s position



descriptions within each department, internal newsletters and paper work on the factory’s history. Direct observation was made during the one-week field study at TeleCo, where the researcher was shown around the factory and given free access to workshops to talk with managers and employees. The researcher also attended one department meeting on the fulfilment of production plans.

The interviews were conducted entirely on the factory’s premises, i.e. either in the manager’s office or in the meeting room where privacy could be ensured. The average length of an interview was about one hour with individuals and two hours with groups. Twenty-one people were interviewed as shown in Table 6-1, which also indicates where more than one interview was conducted or if employees were interviewed in a group.

**Table 6-1 Interviewees – TeleCo case study**

<ul style="list-style-type: none"> <li>• Director/Party Secretary</li> <li>• Deputy Director (production)</li> <li>• Deputy Director (administrative management) (3 interviews)</li> <li>• Deputy Director and Chairman of the trade union of TeleCo (trade union)</li> <li>• Manager of Party Committee Office (Party and personnel affairs) (2 interviews)</li> <li>• Manager of Administration Office (labor and wage) (2 interviews)</li> <li>• Manager (Quality Control Department)</li> <li>• Manager (Research and Development Department)</li> <li>• Manager (Production Department)</li> <li>• Line Manager (Workshop 1)</li> <li>• Line Manager (Workshop 2)</li> <li>• Supervisors (4, interviewed in two groups, each of 2)</li> <li>• Production workers (6, interviewed in two groups, each of 3)</li> </ul>
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As the terms ‘factory’ and ‘director’ are more commonly used in SOEs, they were used as the equivalents of ‘company’ and ‘general manager’ respectively in Table 6-1. The Director/Party Secretary of TeleCo had been appointed by the Municipal Post Bureau only 8 months prior to this case study being conducted, so he was only interviewed once. The Deputy Director in charge of the factory’s administrative management joined TeleCo when it was established 25 years ago and had worked there since. He was therefore interviewed three times, supplying and later assessing detailed information on TeleCo’s past and current situation.

#### **6.4 Case Enterprise – TeleCo**

TeleCo was chosen as a case study for the reasons given in Section 5.3.2. To summarise briefly, its location, products, size and ownership all made it more comparable with the other enterprises selected for this study, especially the FIE, CableCo (see Chapter 9). This section provides brief background information on TeleCo to facilitate the understanding of its HR practices to be presented later.

##### **6.4.1 Enterprise history and ownership**

In late 1969 as the result of the Cultural Revolution, the Municipal Post and Telecommunication Bureau (hereafter referred to the Post Bureau) merged its three small factories to form TeleCo. During that turbulent period, Mao’s ‘Two-One-Three’ system (see Section 2.3.2) was re-emphasised and thousands of cadres and intellectuals were sent to factories or communes to undertake manual labour. This practice was reinforced by Mao’s speech on May 7, 1969, that cadres should take manual work regularly to better serve the people. To follow Mao’s teaching (called ‘May 7

instruction', *wuqi zhishi*), many 'May 7' cadre schools (*wuqi ganxiao*, mainly in the country) and 'May 7' factories (*wuqi gongchang*, mainly in the city) were set up in China for cadres, including intellectuals, to participate in manual work. The Post Bureau was no exception. It established TeleCo as a 'May 7' factory for its cadres, including managerial and technical staff (the majority of employees of the Post Bureau were either technicians or engineers, who were categorised as cadres).

TeleCo was the Post Bureau's only manufacturing subsidiary. When the factory was set up, politically unreliable cadres and some workers from the Post Bureau were transferred there and some relatives of the Bureau's staff were employed as TeleCo's permanent employees. In early 1970, the Municipal government allocated 60 demobilised soldiers and about 40 middle school students to the factory (since the late 1960s, millions of young people were sent to rural areas, while some were assigned to factories to be 're-educated' by farmers and workers). At that time the factory had about 200 permanent employees in addition to cadres from the Post Bureau engaged in production work, manufacturing cables and other equipment and devices for telecommunications.

Before the economic reforms, TeleCo was a typical SOE that strictly adhered to state plans without worrying about inputs and outputs so long as production quotas were fulfilled. However, during the transition period of the economic system, TeleCo found it hard to compete in the market because of various problems. First, the factory was constrained by its financial resources. The factory was not only owned but also operated by the Post Bureau, and the profits it had made were all submitted to the Bureau. TeleCo's total fixed assets in 1993 were only 10,000 yuan per employee on

average, and this value was probably an overestimate as the depreciation rate was fixed at a very low level by the state. Although their equipment was 15 to 20 years out of date, the factory could not purchase new equipment because the Post Bureau feared poor return on the investment. Second, there were excessive numbers of non-production employees and low quality human resources. The ratio of production to non-production employees should normally be 100:14-17, but it was 1:1 in TeleCo. To aggravate the problem, many workers allocated in the 1970s had not received a proper education because of the Cultural Revolution. In addition, the factory had never conducted regular training programs to update the knowledge of its employees.

Third, (and the most important issue in the eyes of the Director), SOEs could not compete equally with non-state enterprises because many state-imposed restrictions led to heavy burdens and rigid structures. For example, the factory operated as a small society by supplying various welfare services to its current and retired employees, such as housing, health care and pensions. In 1993 the factory paid out more than half a million yuan in medical expenses for over 100 of its retired employees. In addition, firing of employees was not permitted unless criminal offences had been committed. The factory was also not allowed to offer commission to the purchasing agents of its products to facilitate sales, which was commonly practised by non-state enterprises. Finally, the factory had suffered from the frequent change of directors. During a three-year period (1991-93), four directors had been appointed. One was demoted because of embezzlement, one was transferred to another organisation because of his poor performance at TeleCo, one died, and the most recent one was appointed at the end of 1993.

Due to these difficulties, the factory operated at a loss continuously from 1990 to 1993. The loss in 1993 was 6.5 million yuan, while the accumulated debts by the end of 1993 were 12 million-yuan. As the factory's total fixed assets accounted for only 4 million yuan, it was theoretically bankrupt. However, with the Post Bureau's protection, TeleCo was given a 'policy loan' (loan without interests) to pay its employees, and was exempted from any tax on revenue in 1993 and 1994. With this government support, TeleCo continued its operations.

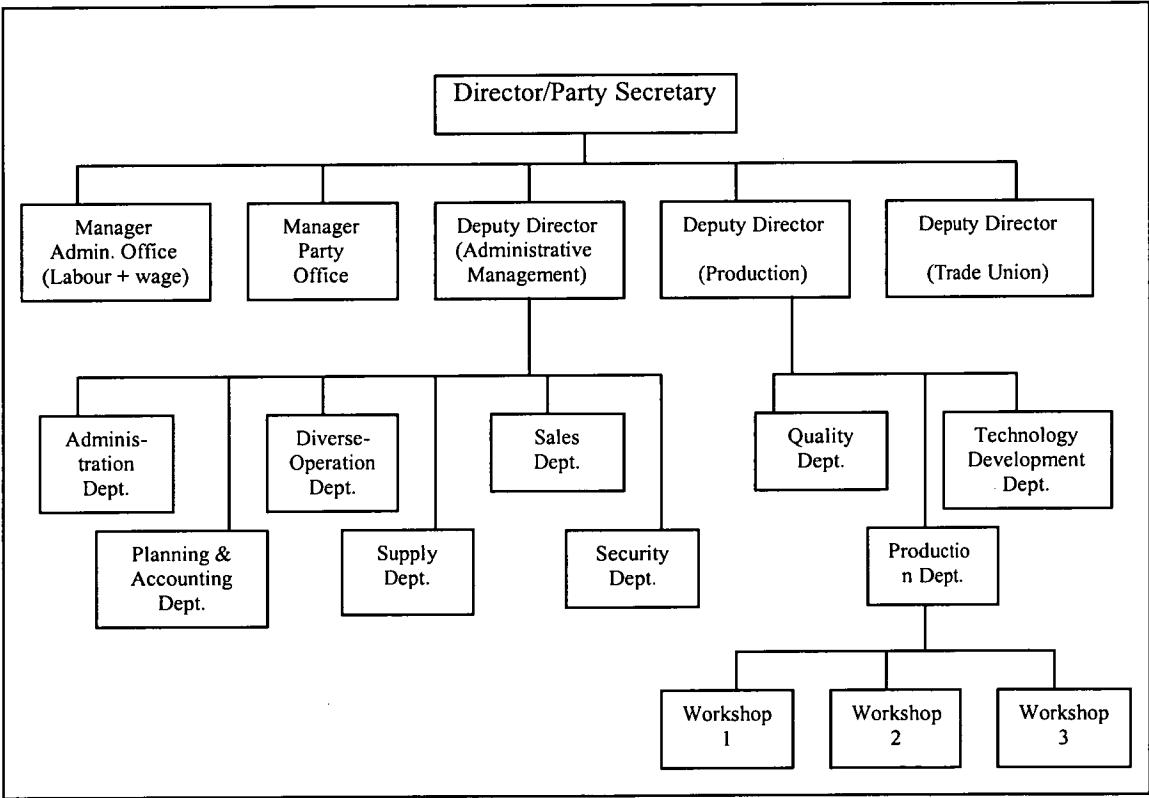
#### **6.4.2 Organisational size and structure**

In 1994 TeleCo employed 438 staff and workers and had 112 retired employees on its payroll. This meant that every 4 current employees had to support 1 retiree, covering the pension and all other welfare expenses. Among 438 employees, 98.6% were permanent and the rest were on contract. The factory's total production output value in 1993 was 10 million yuan, or just over 22,000 yuan per head annually. However, the figure for the output value per head in 1993 should only be used for reference. This is because up to 1994, the contract management responsibility system (CMRS, see Section 3.4.2) was still in existence and contracts used in the CMRS were negotiated individually between the enterprise and its supervisory agency. The system encouraged enterprises to negotiate lower output quotas and tax rates to ease their budget position (see Chai & Docwa, 1997; Fan, 1994; Wong, Heady & Woo, 1995). This would also help SOEs to gain institutional rent if they could sell their output above the quotas negotiated with the state at the market price (see Section 3.2.3).

The factory had 2 offices, 9 departments and 3 workshops as shown in Figure 6-1. The Administration (abbreviated as Admin. in Figure 6-1) Office, also called Director's

Office, was responsible for two major tasks. One was to assist the Director and Deputy Directors in their administration work, and the other was to manage labour and wages, including annual human resource planning, worker's transfer or employment, wage reform and training. It was also in charge of the workers' personal files (*dang'an*). If a worker wanted to transfer to another enterprise (except for foreign-invested enterprises, which could recruit employees without their personal files), he/she had to obtain permission from the factory to have the personal file transferred as well.

Figure 6-1 TeleCo Organization Chart



The Party Committee Office (abbreviated as Party Office in Figure 6-1) reported to the factory Party Committee and was in charge of the administration of cadres, both technical and managerial, Party and non-Party. This office was responsible for each cadre's appointment, transfer, assessment and training. It also kept all cadres' personal

files. Each Office had a manager who reported directly to the Director and Party Secretary of the factory. Before the 1990s, factory director and Party secretary were two separate positions, but now one person holds both positions.

A Deputy Director (administrative management) was in charge of six departments as indicated in Figure 6-1. The Administration Department (abbreviated as Dept.) managed logistical affairs such as the development of the factory's infrastructure and facilities. The Planning and Accounting Department held responsibility for accounting and finance, and determined the allocation of funds to each department. The Diverse-Operation Department focused on the development of diversified businesses, mainly in the service industry, so as to create more jobs for redundant employees of the factory and to increase TeleCo's total revenue. The Supply Department was in charge of obtaining all material inputs for production, while the Sales Department served the role of marketing the enterprise products. The Security Department had a range of responsibilities, such as ensuring factory's security, creating production safety devices and rules, and vehicle maintenance.

Another Deputy Director (production) was responsible for all production-related work, including production, quality control and technology development. There were 3 workshops in the Production Department with 150 production workers. Each workshop was led by a Line Manager and an Assistant Manager. In each workshop there were several production lines or working groups, each of which had a supervisor. The third Deputy Director was the chairman of TeleCo's trade union, and was responsible for all union work. By state regulation, the head of the trade union in this type of enterprises is automatically a deputy director.

### **6.4.3 Business strategy and the emerging role of the HRM function**

TeleCo's mission was 'to be guided by the market and to seek survival by producing quality products'. Its business strategy since early 1994 was 'to face the market, adopt marketing techniques, reinforce management, and change the loss-making status'. The Director and Party Secretary explained the strategy. First, the factory had to ascertain the market demand and organise its production accordingly. The factory's main product was telecommunication cable, for which the market was very competitive, with over 3000 cable manufacturers in China in 1994. The establishment of a joint venture between the Post Bureau and an Australian company to manufacture the same products in the local area further intensified such competition (see Chapter 9 about this joint venture). In order to survive, the factory needed to develop new products and diversify its service industry business whenever opportunities emerged.

Second, it had to use direct marketing techniques to increase its sales rather than waiting passively for product distribution by the Post Bureau. Before 1990, all the cable produced by TeleCo was purchased by the local telephone company that was also a subsidiary of the Post Bureau. The Telephone Company purchased the cable regardless of its price and quality, on instruction from its parent company (the Post Bureau). TeleCo therefore had had no need to market its products or curb its high manufacturing costs. However, with the reforms, the Telephone Company became financially independent, and began to select products with better quality at a lower price. TeleCo was forced to compete with other cable manufacturers, thus the search for a suitable market with the adoption of marketing skills and strategies became crucial. The Director stressed that personal connections and networking was also important in marketing (he had brought a lot of customers to TeleCo since his



appointment) and he encouraged employees to develop a similar network for promoting TeleCo's products.

Finally, TeleCo had to reinforce its management by adopting management by objectives, linking bonuses more closely to each employee's performance, and creating competition within the factory. The factory would draw up detailed production objectives to be completed by every department, production line and work team. Bonuses would then be distributed according to the objectives achieved. As there were an excessive number of non-production employees, the factory was planning to abolish redundant positions and let employees compete for the remaining positions (*jingzheng shanggang*). Only the most competent employees would keep their positions, while the rest had to be relocated.

To implement the strategy, the factory tried to foster its own enterprise culture that was expressed in a four-phrase slogan – 'to work hard together, to be innovative and enterprising, to feel happiness at TeleCo's prosperity, and to feel shame at TeleCo's decline'. The factory's senior managers pointed out that the acceptance of this culture by employees depended on the effective management of human resources. During Mao's regime, the personnel and labour administration was heavily dependent on ideological education and egalitarian distribution, which had become ineffective since the economic reforms. In order to survive in a market-oriented economy, the factory needed not only a market and new products, but also quality products at a low cost. Cable products had to be of a high quality with an efficient utilisation of raw materials. Any wastage resulted in high costs and low quality. The task of boosting employee's motivation to work hard and efficiently, and aligning their interests with the enterprise

had become a challenging issue for managers, especially those in the human resource area. Managers interviewed for this study all believed that the traditional HR practices had to be changed to offer employees better incentives and to help nurture the enterprise culture. Although the wage system was under reform, it could not effectively differentiate high and low performers, and hence undermined the incentives offered.

While managers admitted that TeleCo needed better HR practices, the factory did not have an independent department to manage its human resources. From 1983 to 1992, all human resources (cadres and workers) were managed by the Administration Office along with other miscellaneous duties. In 1993, the factory's 120 cadres, including technical cadres (e.g., engineers) and managerial cadres (e.g., line managers and above), were placed under the control of the Party Committee's Office. The aim of separating the administration of cadres from workers was to achieve better control of the quota for cadres as well as their appointment, promotion and performance appraisal. The terminology of human resource management did exist in TeleCo, and the extent to which HR activities played a role in the factory's business operations is discussed in the following section.

## **6.5 HR activities at TeleCo**

As TeleCo had been in operation for 10 years before the reform, it had experienced centralised control of its human resource like many other SOEs. It has also had 15 years of operations during the post-Mao reforms when this case study was conducted. Therefore, a number of issues needed to be considered. First, are SOE employees

managed in a way that is totally different from the old practices because of reforms? Second, does state ownership still have a great impact on HR practices? Third, what is the future development in HRM likely to be? This section addresses these issues by describing and analysing practices in TeleCo before and during the reforms with respect to six HR activities, i.e., human resource planning, recruitment and selection, performance appraisal, compensation, training and development, and labour relations.

### **6.5.1 Human resource planning**

Under the command economy, the government at different levels conducted human resource planning and then allocated labourers to enterprises (see Section 3.3.2). TeleCo itself therefore had not handled this function before the reforms. However, when this case study was conducted in 1994, 15 years after the commencement of reforms, TeleCo still lacked formal human resource planning. Instead, it had a list of quotas for its employees specified by the Post Bureau. The factory was allowed no more than 120 cadres, including 5 senior managers (e.g., director and Party secretary, and deputy directors), 5 senior engineers, and 25 engineers. The rest were managerial and technical staff. Those graduates with tertiary education all belonged to the category of cadres; technical school graduates (equivalent to Year 12 graduates) could be cadres or workers, depending on their job position and the availability of cadre quotas. That is, if there was no available quota for a cadre, the technical school graduate could take a cadre's job without the usual wage scales and benefits for cadres. While the quota for cadres was strictly controlled by the Post Bureau, the total number of workers was also under the state's control because the total wage bill had been fixed by the Municipal Labour Bureau since 1986. The factory could alter its number of employees as long as the total wage bill was not compromised. Only when the

governing authority assigned new employees to the factory could the total wage bill be increased.

Within the limits of these quotas, the factory had its own annual plans for retirement and replacement. The state regulations specified that cadres should retire at 55 for women and 60 for men, while workers retire at 50 for women and 55 for men. New recruits had to be selected to replace the retirees and any workers that left. As the factory was not running profitably, bonuses offered were limited, which led some experienced and skilled employees either to resign and join other companies or to transfer to the Post Bureau's foreign-invested enterprise, CableCo (see Chapter 9), for better pay. For example, in 1991, 70 managers and workers were transferred to CableCo.

While TeleCo was suffering from overstaffing, it lacked specialised technical people in the area of cable manufacturing. This scarcity was caused by several factors. First, the factory had no long-term business strategy due to its frequent change of directors, and consequently there was no long-term human resource planning. Second, the current annual human resource planning placed more emphasis on the replacement of retired or resigned employees than the selection of new recruits to meet its production development needs. Third, the factory had no power to fire surplus workers and recruit the more qualified ones. Instead, the factory had to submit an application specifying the type of technical people to be recruited to the Post Bureau one-year in advance for approval. The factory's needs could not always be satisfied because of the constraints on quotas. Since 1994, with the arrival of a new director, the factory has placed more emphasis on its business strategy and recruitment of competent employees. Both the

Administration Office and Party Committee Office were required to formulate a three-year human resource plan by the end of 1994 to clarify the type and number of employees to be recruited, kept or relocated based on the factory's business plan and job analysis details.

As part of its human resource planning, personnel and labour managers, production engineers and managers at TeleCo were to jointly conduct a job analysis project in late 1994 to specify the duties, responsibilities and workload involved for each job position and the employee characteristics required. The factory only had brief job descriptions for each department as a whole, and a description for some production positions. The absence of such job description for many individual positions, especially non-production positions, has partly contributed to the problem of overstaffing and low efficiency. Based on the analysis details, the factory could identify and abolish redundant positions, and introduce internal competition for each job position (*neibu jingzheng shanggang*). The senior managers expected that this competition could keep the best employees at their positions and thus increase productivity. Meanwhile, the factory encouraged surplus employees to set up their own businesses, offering them aid. Assistance from the factory included helping them to obtain business registration, paying basic wages before their own business started up, allowing them to keep welfare packages, and even investing small amounts of money to help them get started. In return, these self-employed workers or staff had to pay 1% of their sales revenue to the factory as sort of compensation. In 1994, more than 60 employees owned individual businesses, earning an average income that was 20% more than TeleCo's average wage. For those who could neither keep their positions nor develop their own business, they would remain on the factory's payroll, but only received the basic pay

without any bonuses. It was the factory's responsibility to deploy rather than sack them.

### **6.5.2 Recruitment and selection**

Like human resource planning, the function of recruitment and selection did not exist before the reform process. In fact, the factory itself had never recruited anyone from external sources before 1985. New employees were mainly recruited via two routes. The first was allocation by government authorities such as the Post Bureau and the Municipal Personnel and Labour Bureau. The second was 'occupational inheritance' (*dingti*) by close relatives (usually sons and daughters) of those who had retired. From 1970 to 1975, four groups of demobilised soldiers, high school leavers and graduates were assigned to the factory by government authorities. In 1978, a group of sons and daughters of retired employees was recruited to 'inherit' the jobs of their parents (usually they would be assigned by the factory according to production needs rather than taking on the same position as their parents).

Before 1985, it was the Post Bureau that recruited labourers allocated by its higher authority (municipal, provincial or central government), and then assigned them to lower level organisations, such as TeleCo, according to the quotas. Since mid-1985, when the government loosened its control over labour allocation, the Post Bureau decentralised its staffing policy by granting autonomy to the factory to select its own employees from local school leavers and job-seekers recommended by the Labour Bureau. However, the number of new recruits was still controlled by the Post Bureau. If the factory wanted to recruit an employee from another city, it had to be handled by the Post Bureau. Nevertheless, it was the first time that the factory conducted

recruitment and selection by itself. The factory first incorporated written tests into the selection process in 1986.

Since 1990 the factory has been given more freedom to recruit university graduates according to need rather than merely taking graduates allocated by the governing authority. However, recruitment was still restricted by the quotas set by the Post Bureau. If, however, a university graduate was the child of a TeleCo employee, and held a degree relevant to telecommunication, permission to recruit that person could always be obtained from the Bureau. The reason for this special treatment of the children of TeleCo's employees was because this was the only way for a son or daughter to come back from the city they studied in and live in the same city as their family. Normally, when recruiting university graduates, the factory's personnel manager would visit universities to find candidates who had completed subjects relevant to TeleCo's requirements. The personnel manager would check the academic records of potential candidates and conduct interviews. A decision regarding employment was usually made after the interview. For each graduate recruited, the factory had to pay the university 4,000 yuan as education fee (this was the 1993 price for SOEs). The manager in charge of personnel complained that "centralised labour allocation was free of charge but enterprises did not have the right to select, now enterprises could select but had to pay".

TeleCo used to have more graduates from technical schools than from universities for several reasons. First, unlike university graduates, these students could be employed without paying their schools an education fee. Second, the equipment used in TeleCo was relatively old and technical school graduates were able to operate the older

equipment. Third, technical school graduates were not restricted by the cadre quota, as they could be classified as either cadres or workers. Usually they were assigned to production lines and became workers. They could apply for promotion to technicians (with similar status as engineers), but needed 15 years of working experience before they were eligible to apply. In contrast, university graduates were automatically classified as cadres by state regulation and would normally be promoted to engineers after working for 5 years. The factory normally had to obtain quotas for both cadres and engineers in order to recruit and promote university graduates.

However, since 1993 the control of quotas for cadres had started to loosen in a number of ways. First, the cadre quota no longer applied to fresh university graduates. This meant TeleCo could recruit university graduates while maintaining its current number of cadres (120 in 1994). Second, cadres were no longer guaranteed tenured cadre positions and could become workers if there was no cadre position available or if they were judged to be incompetent for a cadre's job. Cadre numbers thus became more flexible, and the factory had more freedom to take on university graduates according to their production needs.

As for the selection of managerial cadres (including line managers and managers above this level), three scenarios applied for the factory director, senior managers (i.e., deputy directors) and middle-level managers (i.e., those at department and workshop levels). The factory director was appointed directly by the Post Bureau; senior managers were recommended jointly by the director and the Party Committee Office and approved by the Post Bureau; middle level managers were selected by the Party Committee Office and appointed by the director. The selection criteria for managerial



cadres, according to the manager of the Party Committee Office, focused on political reliability, technical competence, previous working performance and education qualifications.

### **6.5.3 Performance appraisal**

During Mao's regime, TeleCo's performance appraisal was conducted annually only for cadres (both managerial and technical cadres). There were no specific criteria for appraisal. Each cadre was required to submit a self-evaluation of the previous year's work, usually including one's political attitude (e.g., followed Mao and the Party's instruction and took part in political movement), and work results (e.g., achievements and rewards). Each individual's narrative would be commented on by his/her direct superior and then the head of department. The main purpose of this appraisal was for promotion or transfer. Since the post-Mao reforms, performance appraisal has been emphasised and conducted for everyone. However, different approaches have been taken to assess different groups of employees, including senior managers, middle-level managers, technical cadres, managerial staff and workers.

The performance of senior managers including directors and deputy directors was assessed annually by an appraisal group composed of a manager from the Post Bureau, the personnel manager from the factory's Party Committee Office, and representatives from TeleCo's Workers' Representative Congress. The appraisal criteria used consisted of four items: political attitude and practice (*de*), competence at work (*neng*), working attitude and effort (*qing*), and performance record (*jie*). Performance record was based mainly on the completion of tasks specified in the individual contract. Between 1988 and 1992 while the CMRS (contract management responsibility system,

see Section 3.4.2) was in practice, each senior manager signed an individual contract once a year with the Post Bureau. The contract specified the tasks to be completed in that year, thus specifying some measurable assessment criteria.

The appraisal process started with a senior manager's self-report on his/her past year's work with respect to these four areas. The appraisal group would then make comments on this report and give feedback to the relevant manager. The purpose of assessment was to decide whether the managerial position should be retained by the individual. If the manager performed badly because of incompetence or poor interpersonal relationships with employees, he/she would probably be transferred to another position at the same or lower level in another organisation of the Post Bureau. Dismissal of a senior manager could only take place if the incumbent had committed a crime.

The performance of middle-level managers was assessed annually by the Party Committee Office. Each manager was also required to compile a self-report on the past year's work, focusing on work attitude, ability, achievement and potential area for further improvement. This report would be sent to senior managers for their comments, which would often be returned to the appraisee. The purpose of appraisal was similar to that for senior managers, i.e., to decide on the continuation of appointment. However, middle-level managers would either retain or lose their positions rather than being transferred to other places.

Technical cadres (including assistant engineers, engineers, senior engineers and technicians - some of them were also managerial cadres) were assessed every three years. The factory had a Technical Assessment Committee in charge of this appraisal.

The Committee had assessment criteria with standardised marking allocation for each criterion. The criteria focused on the research conducted, application of research results in production, improvements made in production or productivity, and research papers published. The first step in appraisal also required an individual to report on his/her work over the previous three years. Each appraisee had to present the work completed within this period, problems identified in the work, and a plan for the future. Based on individual reports and the Committee members' knowledge of appraisees' performance, the Committee would then assess each person's performance and give marks accordingly. At the end of 1993, 113 cadres were assessed, with 4 achieving the result of 'excellent', 105 'good' and 4 'average'.

This assessment served two purposes. The first was for appointment. Since 1993 there had been no quotas for technical titles, but appointment was still limited by the overall quota. This meant a technical cadre could have the title of engineer without being appointed to the engineer's position. In this situation, the technical cadre would receive the same 'skill wage' as someone in the engineer's position, but different 'position wage' (see next section for skill-and-position wages). The second purpose was for promotion. In 1994 the factory was allowed to have only 5 senior engineers and 25 engineers. If a replacement was needed because of retirement or resignation, or the Post Bureau decided to increase the quota, then assessment results would be used for determining promotions.

Staff working in the non-production departments, including technical and managerial employees, were assessed by the head of each department on a monthly basis. As there were no job descriptions for individual positions in the departments except for brief

descriptions for each department as a whole, the appraisal criteria were quite vague, with an emphasis on work attitude, co-operation with colleagues, and ability to complete the task. Usually the staff wrote a monthly work summary and gave it to the department manager for appraisal. If the staff member had completed the assigned task for that month, there would be no negative comments and his/her monthly bonus would not be affected. As few objective standards were used and the appraisal was conducted in an informal way, there was little feedback for appraisees except for the occasional chat with the department manager when problems occur in their work. The appraisal became a routine practice and was used only for the purpose of distribution of bonuses.

The assessment of workers' performance, unlike that of departmental staff members, was based solely on their production quantity and quality, and performance results were openly posted in the workshop. Employees working in the production department said they had 'hard' assessment criteria (i.e., quantifiable and measurable), while staff members only had 'soft' ones (i.e., subjective and non-measurable). This was the major reason for differentiation of bonuses between production and non-production employees (see next section). Performance appraisal for workers was conducted by their supervisor, who would then send a copy of the assessment to the line manager for record-keeping. The major purpose for the monthly performance assessment was to link monthly bonuses to individual performance. Was this aim really achieved? This question is addressed in the next section.

#### **6.5.4 Compensation and welfare**

Before the reforms began, wage scales were fixed by the central government for cadres and workers (see Section 3.3.3). This centrally fixed wage system was used in TeleCo until 1993 when a number of revisions were made. First, wage increases became linked to each enterprise's total performance and economic results to replace unified national wage increases. If an enterprise was performing well, its wage increase would be tied to its profits. The higher the profit, the greater the percentage increase could be. For loss-making enterprises, wages were only increased according to the increase in inflation. Second, local government agencies such as the Post Bureau were given more autonomy in deciding the time and conditions of wage increases. There were two types of wage increases. One was wage adjustment, which was to keep up with the inflation rate and was universal, i.e. all wages were increased by the same amount. The other was wage promotion, which was usually limited by conditions specified by the Post Bureau, such as the quotas for promotion and length of service.

The amount of basic wage before 1993 depended heavily upon one's wage level and seniority, which was similar to the situation before the reform. For example, under the 8-level wage scales, workers who were grouped at the same level received the same pay regardless of their job positions or skills. For wage promotions, seniority was always a more important criterion than performance results. Wages were increased so long as the employees had worked for the prerequisite time period, and had not seriously violated the factory's rules and regulations (e.g., frequent absence from work or causing severe accident).

In mid-1993, TeleCo began to use the position-and-skill wage system (see Section 4.5.2). Under this system, each person's wage was split into two parts, position wage and skill wage. The former was linked to the responsibility assumed and the latter to skills required. Based on the four aspects of each job (i.e. the knowledge and skills required, work loads involved, labour intensity and working conditions), the Ministry of Post and Telecommunications broadly classified job positions in the telecommunications industry and specified different levels within each position. The wage ranges for each position (i.e., position wage) and different levels within each position (i.e., skill wage) were stipulated by the Ministry and recommended as guidelines to its enterprises. Using these guidelines, TeleCo determined a wage package for each position and its related levels within the factory. For example, workers' jobs were categorised under 8 broad positions, with 4 levels within each position, which were determined on the basis of knowledge, skills and responsibilities involved. Employees with the same qualification and similar experience but different work positions received the same skill wage but a different position wage. Similarly, people working in the same position but with different qualifications and experience received the same position wage but a different skill wage.

Under this wage system, workers were required to sit a technical test to determine their skill levels. Technical staff who wanted to apply for technical titles as engineer or senior engineer had to sit a test prepared by the Post Bureau. Employees applying for technical titles as assistant engineer or technician were tested by TeleCo's own senior technical staff. The tests were offered once a year. If an employee passed a higher-level skill test, the factory had the autonomy to increase his/her skill wage while maintaining the same job position. Certain conditions applied to increasing an

employee's position wage. First, the factory Director could exercise autonomy to offer special promotion to 2% of the employees annually. Employees who were promoted in this way could have their wages increased (including both position-and-skill wages). Second, some positions, such as engineers and senior engineers, had quotas controlled by the Post Bureau. The factory could only promote someone to a higher position within the limits of this quota.

The new wage system offered incentives to employees who held higher positions with more responsibilities, and also encouraged people to gain more skills. However, two major issues undermined the effectiveness of the new wage system. First, there was only small differentiation between wage levels. For example, for engineers, the difference between junior, middle and senior levels was only 2-3% which translates to 15-20 yuan per month between levels at an average wage of 600 yuan for engineers. Second, as the factory had not conducted job analysis and lacked job descriptions, the classification of positions and levels was vague.

Before trying different wage packages, a bonus system was restored. Prior to the Cultural Revolution, the factory had operated a bonus system. The bonus was, on average, about 10 yuan per month and its distribution was based mainly on the quantity and quality of the work completed. This system was abolished during the ten-year chaos and restored in the late 1970s with the intention of offering employees some incentives. However, bonuses were distributed equally among employees until 1983 and failed to serve as a motivational tool. In 1984 the factory adopted a 'two-level bonus distribution' method, aimed at linking bonuses to the performance of the department, workshop and employees. The two levels were the department and the

employee. Each month the factory would determine the amount of bonus offered to each department based on the objectives it had achieved. The department would then distribute bonuses to the lower level. In the Production Department, bonuses were distributed to each workshop according to the quality and quantity of tasks completed, and then the bonuses would be similarly allocated from the workshop to each production line or work group. Usually employees working in the same production line or group received the same amount of bonus, with the exception of those with a very poor working record. If the workers were dissatisfied with their bonus, they could elicit help from the trade union.

In TeleCo, the ratio of bonuses distributed to the production and non-production departments was 10 : 6-6.5. The distinction existed to encourage employees to work in production lines and to acknowledge workers' efforts, as they all had 'hard' assessment criteria for their work. Such a bonus system did offer more incentives to production workers, but less so for other groups of employees, especially technical staff and managers. In TeleCo, bonuses accounted for 30% of an employee's wage package. Although technical staff earned higher position-and-skill wages than workers, the smaller bonus they received minimised the difference between themselves and the workers'. In addition, bonuses were almost equally distributed among technical staff without discriminating between high and low performers. Technical staff could only receive an extra bonus from the Post Bureau when they accomplished significant results that could lead to a patent. Managers were also dissatisfied with their payment. For example, the factory Director complained of having the most responsibilities, limited autonomy and yet the least benefits, because his monthly bonus was lower than what production workers received.



While the position-and-skill wage system focused on distinguishing between more and less responsibilities as well as high and low skills rather than the titles of cadres and workers, some welfare benefits offered still differed dramatically between cadres and workers. For example, cadres at the senior level could receive 100% of their wages as pension upon retirement, while retired workers were paid only 75% of their previous wages. However, cadres and workers enjoyed many similar welfare items, including housing and health care. The money that the factory spent each year on collective welfare benefits, such as building dormitories and paying medical expenses, represented 11% of its total payroll.

#### **6.5.5 Training and development**

Before 1975, training was mainly offered to newly recruited workers in the form of apprenticeship. It involved a three-year training period, during which the apprentice worked closely with his/her supervisor to learn all the necessary skills required for the job. At the end of the period, the apprentice could become a permanent worker at grade-one level if he/she passed a written exam and practical test. This system was abolished in 1975, and the factory had to organise training courses for new workers who were totally unskilled school leavers. This was because vocational education was not popular until the early 1980s, and students from high school only had general secondary education (see Section 4.6.1). The training programs offered focused on production skills, such as mechanical processing skills and equipment maintenance know-how and procedures. In the 1980s, training programs also covered areas such as mathematics and physics as high school education had been severely disrupted by the Cultural Revolution. This kind of training was greatly reduced from the late 1980s when more vocational and technical school graduates were assigned to the factory.

All new employees (including workers and university graduates) were offered one week of orientation and induction. This training helped new employees to become familiar with TeleCo's factory history, rules and regulations, business operations, the working environment and tasks to be performed. After induction, they were assigned to different departments to work with a supervisor. After a one-year probationary period, university graduates could work independently without any assessment, while other trainees (usually workers) were required to sit written and practical tests. The written test focused on their level of knowledge and the practical test assessed their ability to operate machines. Once they passed both tests, they were assigned to work positions with little supervision.

Before 1993, training offered to workers was mainly on the job as required by the import of new machines or new technology. A few off-the-job-training programs were also conducted for workers to help them reduce wastage of raw materials and rejected products, and to prevent workplace accidents. If the Post Bureau required employees to undergo specific training during their working time, the factory complied. For example, training for total quality control was conducted off the job as a short course for every employee as requested by the Post Bureau.

Once the factory adopted the position-and-skill wage system in mid 1993, it was required by the Post Bureau to offer regular training to its employees, particularly workers, so as to advance their skills to match job demand. The Post Bureau worked out quotas for TeleCo, specifying the number of workers who should reach an education level of grade 12 each year. The Post Bureau also conducted annual assessments of the effectiveness of training offered in its subsidiaries, which formed

part of the appraisal criteria of the head of each subsidiary. This exerted pressure on the director of the factory to budget money and time for training.

As a result of these changes and demands, the factory began to place more emphasis on training for workers. It encouraged its employees to undertake part-time study at a university or a correspondence technical school. The factory would give workers 1 to 2 days off work per month for their study and reimburse their tuition fees under certain conditions. First, they had to pass all the examinations. Second, 66% of tuition fees could be reimbursed for university degrees and 100% of fees for technical school degrees. For workers who could not enrol in technical schools or universities, the factory arranged for them to attend a one-day training course every month. The training was conducted by factory technical staff with a focus on the knowledge and skills required for the job.

Technical and managerial staff had more training opportunities than workers did as the Post Bureau offered programs for them, such as new technology training for technical employees and managerial training for supervisors and line managers. It was usually compulsory for the factory to send relevant people on training programs offered by the Post Bureau. These programs would be conducted in the evenings or take up half a day per week for several weeks. A frequently used method to train managerial employees was to organise for them to watch management training programs on TV (video cassette recorder was unavailable at that time).

TeleCo had formulated a training plan for technical staff to update their knowledge in the early 1990s but this plan had been suspended because of the factory's financial

losses. The personnel manager expected to reactivate this plan when the factory was in a better financial position. The factory Director pointed out that training was particularly important for TeleCo because of the need to improve performance and update equipment. TeleCo also needed to develop more new products for the market to increase its market share. These objectives would not be achieved without proper training. Although the Director noted that political education (e.g., building the socialist market economy and eliminating bourgeois liberalism) should be part of employee training, other managers interviewed all believed that training should focus on current production needs and future development.

#### **6.5.6 Labour relations**

TeleCo was unionised, and everyone was a union member. The function of the trade union was abolished during the Cultural Revolution and restored in the early 1980s. In addition to the trade union, the factory had a Workers' Representative Congress (also called enterprise staff-and-worker-council, hereafter referred to the Congress) that was re-established in 1984. According to union regulations, in a factory with fewer than 500 people, 15% of employees could be elected to the Congress. TeleCo's Congress had 60 members, proportionately representing technical and managerial staff, and production workers. The Congress was the major channel for employees to participate in enterprise management because Congress members were involved in the factory's decision-making. The Congress usually held meetings twice a year to examine the factory Director's work report and the factory's production and business development plans. Only when the plan was approved by the Congress could it be implemented. The Congress also had several specific groups, including the wage and bonus group,

welfare group, and assessment group, which helped to monitor the implementation of relevant policies and decisions in the factory's plan.

The routine work of the Congress was carried out by the trade union. The chairman of the trade union was also a Deputy Director of the factory (and thus was a cadre) but solely engaged in union work. Candidates for the position of the chairman were nominated by employees and determined by votes from the Congress members. Each department and workshop had an elected union head within that unit. The union head at this level might be a cadre or a worker depending on his/her own job position. They were not given release time for union work, so it was an additional task.

The current union at TeleCo served four functions. First, the union assisted management to fulfil the tasks proposed by the Director. In order to do this, the union and the Administration Office had a verbal agreement to jointly assist the director in his work. The union helped to organise labour emulation activities (*laodong jingsai*) whenever necessary to speed up the completion of certain tasks. It helped to collect employees' suggestions or recommendations for production improvement and to implement production safety rules. Second, the union was responsible for employees' welfare, such as allocating housing, visiting retired and sick employees, offering financial help to employees who had temporary family problems, and organising leisure activities for employees.

Third, being the employees' representative, the union helped to channel employee complaints or grievances to relevant managers. For example, if a worker's bonus was reduced by a line manager without justification, the worker could ask the union to talk

with this manager. If the manager had justifiable reasons, the union would assist the manager to consult with this worker. If the manager was in error, the union would help to correct the decision (according to the Chairman of the union, this situation had never occurred). If the factory wanted to dismiss an employee, the Congress had to approve the decision. Finally, the union organised training programs for union members such as workshops on machine maintenance, technical innovation, and quality control.

The trade union at TeleCo still played the role of the ‘transmission belt’ between management and employees. It was a management assistant as well as an advocate for employees. The union helped to reduce and even avoid conflict between managers and employees, although it had never been in the position of negotiating with managers on behalf of employees. Simply put, the major task of the union was to look after the employees’ welfare.

## **6.5 Discussion and Summary**

This chapter has highlighted the HR practices in a SOE, TeleCo, in terms of six major HR activities as summarised in Table 6-2. It focuses on current practices, with a brief comparison with the management of human resources during Mao’s regime.

**Table 6-2 HR activities at TeleCo**

HR activities	Purposes	Features	Issues
HR planning	<ul style="list-style-type: none"> <li>• did not exist before the reforms</li> <li>• for replacement</li> <li>• to hire university graduates</li> </ul>	<ul style="list-style-type: none"> <li>• constrained by quotas</li> <li>• short-term oriented</li> <li>• no planning for retrenchment</li> </ul>	<ul style="list-style-type: none"> <li>• no job analysis</li> <li>• lack of long-term business strategy</li> <li>• overstaffing but lacking specialised technical people</li> </ul>
Recruitment & selection	<ul style="list-style-type: none"> <li>• not in existence before the reforms</li> <li>• to meet replacement needs</li> <li>• to build a workforce based on the factory's needs</li> </ul>	<ul style="list-style-type: none"> <li>• need to select within given quotas</li> <li>• no standardised procedures</li> <li>• written tests for selecting workers</li> <li>• qualification-oriented for technical staff</li> </ul>	<ul style="list-style-type: none"> <li>• lack of job description</li> <li>• heavy reliance on the individual judgement of personnel manager</li> <li>• the nomenclature system for senior managers</li> </ul>
Performance appraisal	<ul style="list-style-type: none"> <li>• only for cadres before the reforms for promotion and transfer</li> <li>• for reappointment</li> <li>• for promotion</li> <li>• for bonus distribution</li> </ul>	<ul style="list-style-type: none"> <li>• self-report oriented</li> <li>• no formal assessment sheet</li> <li>• 'soft' and 'hard' appraisal criteria</li> </ul>	<ul style="list-style-type: none"> <li>• only for administration purpose</li> <li>• no objective measurement for non-production work</li> </ul>
Compensation & welfare	<ul style="list-style-type: none"> <li>• centrally fixed wage scales before the reforms</li> <li>• to link wages to responsibilities and skills</li> <li>• to link bonuses to performance</li> </ul>	<ul style="list-style-type: none"> <li>• position-and-skill wages since 1993</li> <li>• some position wages were constrained by quotas</li> <li>• bonus consists 30% of wage package</li> <li>• higher bonus for production workers</li> </ul>	<ul style="list-style-type: none"> <li>• validity of classification of position-and-skill wages in the absence of job analysis</li> <li>• no substantial gap between high and low performers</li> <li>• no performance-linked bonus for non-production employees</li> </ul>
Training & development	<ul style="list-style-type: none"> <li>• to prepare new employees</li> <li>• to improve employees' skill levels as required by the Post Bureau</li> </ul>	<ul style="list-style-type: none"> <li>• often universal and sporadic</li> <li>• mainly on-the-job training</li> <li>• reactive to solve emergent production problems</li> </ul>	<ul style="list-style-type: none"> <li>• lack of funding</li> <li>• no systematic training</li> <li>• no training for career development</li> </ul>
Labour relations	<ul style="list-style-type: none"> <li>• management assistant and employees' caretaker</li> <li>• a bridge between management and employees</li> </ul>	<ul style="list-style-type: none"> <li>• unionised</li> <li>• focus on employees' welfare</li> <li>• assistant to management</li> </ul>	<ul style="list-style-type: none"> <li>• To what extent does the trade union represent workers' interests in terms of their rights and power?</li> </ul>

Table 6-2 indicates that before the reforms, these activities rarely or only partially existed because of a centrally planned economy and the monopoly of state control over SOEs. At that time, the state undertook human resource planning, allocated human resources, and fixed wage scales for enterprises, especially SOEs. Performance appraisal was utilised mainly for cadres and training was generally provided in the form of apprenticeship for new workers. When this case study was conducted in 1994, TeleCo had experienced a series of changes in its management after 15 years of economic reforms, though it was still in transition from having 'state-run' to enterprise-managed human resource practices. Although TeleCo exercised more autonomy in its own HR practices, such as the selection of employees and establishment of wage packages, HR activities were not conducted in a way as defined in the West. In fact, some of these activities were only partially utilised, some existed in name only or had typical Chinese characteristics, and some were totally absent.

First, some HR activities were only partially in existence. For example, performance appraisal was emphasised and applied to everyone at the factory. However, it was used only for the purpose of administration rather than for performance improvement. Furthermore, with both 'hard' and 'soft' assessment criteria in existence, the reliability and validity of performance appraisal was questionable. Similarly, compensation was beginning to link wages to individual job positions and skills, and bonuses to performance. The current practice had moved away from the traditional iron wage system and offered some incentives to employees. However, lack of job analysis and objective assessment criteria meant that the links between positions and wages were weak, and the differentiation of bonuses between production and non-production employees was driven by ideology.



Second, although the terminology describing various HR activities was used at TeleCo, the actual human resource practice sometimes existed only nominally or with typical Chinese characteristics. Human resource planning, for example, was used mainly for replacing employees who left, and was rarely linked to the factory's strategy, as would be the case in Western HRM. Recruitment and selection were conducted without formal selection criteria and procedures, and were limited by quotas. In addition, this activity seldomly applied to senior managers, because, as Tausky (1991) observed, the appointment and promotion of senior managers has remained in the hands of the state. These problems could partly be attributed to the context or environment in which these activities were conducted. Practices were significantly influenced by Chinese rules, regulations and traditional practices – such as the constraint of the quotas specified by the governing authority, state-imposed restrictions on retrenchment, the legacy inherited from the command economy (e.g., overstaffing), and the nomenclature system used for senior managers. Furthermore, the absence of job analysis, unstable leadership, a short history of the factory having its own business strategy and managerial inertia also contributed to an HRM that mainly existed in name.

Finally, some HR activities, such as career development or collective bargaining were totally absent from TeleCo. The absence of career development could be the result of lack of funding, human resource planning and regular training. In addition, as the factory was under pressure to keep all its redundant employees and relocate them, managers were laden with routine work instead of dealing with long-term issues. The absence of collective bargaining was common in Chinese SOEs, as the trade union was

expected to be 'the transmission belt' between the state and employees, and could be regarded as an extension of management. Although the union chairperson's rank was raised to deputy director, the trade union and the Workers' Representative Congress had little impact on the operations of the factory, let alone negotiating on behalf of workers with the state and management. This situation has also been reported by other researchers (O'Leary, 1994; Unger & Chan, 1996). Some researchers (White, Howell & Shang, 1996) believed that as long as the pre-reform urban *danwei* system stayed basically intact, the union was irrelevant. This is an accurate description of TeleCo's situation in the mid-1990s: employees were still guaranteed employment and permanent jobs, with few employees on contract.

Although TeleCo's current management of human resources was far from ideal, some HR activities were being recognised as useful and placed on the agenda. For example, TeleCo planned to conduct job analysis to identify its human resource needs and define job positions for the purposes of performance assessment and compensation. This plan was welcomed by the non-production employees, as they wanted to have 'hard' appraisal criteria and more rationally distributed bonuses rather than accepting lower bonuses than production workers. The factory also realised the necessity to have a long-term (at least three years) human resource plan based on its business strategy so as to identify the type of people to be recruited and retained. Furthermore, systematic training of technical staff to update their knowledge and skills was urgently needed to allow TeleCo to compete in the market with new high-quality products. The factory also planned to offer regular training to its workers to improve their skills in preparation for the upgrading of equipment. The business plans that TeleCo was going to implement indicated a clear trend in the factory's human resource practices, namely,

to develop human resource planning according to its own needs, to link compensation more closely to employees' performance and to offer substantial training to employees.

From this case study, significant impact of state ownership on TeleCo's HR practices before and during the reforms can be observed. The state was able to control the 'state-owned' factory through the use of quotas, the nomenclature system (to appoint senior managers) and 'iron-rice-bowl' system (to keep surplus employees on the payroll). Although this type of ownership offered TeleCo protection from bankruptcy, the introduction of the modern enterprise system meant that the state's protection would be reduced, as would its control of the factory's management. As a result, the factory would face more market competition. Effective management of human resources was expected to nurture TeleCo's culture and to help the factory achieve its objectives. TeleCo had started to move away from its traditional personnel and labour administration but still has a long way to go before it would have a robust HRM system.

## **CHAPTER 7**

### **CASE STUDY 2: HR PRACTICES IN A COLLECTIVE-OWNED ENTERPRISE**

#### **7.1 Chapter Objectives**

The second case study was conducted at RadioCo, a collective-owned enterprise (COE), or more precisely, an urban COE under direct control of the municipal industrial bureau. The objectives of this case study are the same as the previous case study, that is, 1) to describe current HR activities in RadioCo with a brief review of labour and personnel administration before the post-Mao reforms; 2) to explore the impact of ownership type on HR practices; and 3) to describe and analyse probable paths of HRM development in the future. Given the same objectives, this case study adopts a framework identical to that of the previous chapter. The next section presents an overview of COEs in China, including their origins and development, differences from SOEs, business operations and major HR practices before and since the reforms. Following the second section is a description of data collection for this study. The case study presented in sections four and five offers background information on RadioCo, focusing on its HR practices. It concludes with the summary of findings from this case study and a discussion of the issues arising from the research.

#### **7.2 Collective-owned Enterprises (COEs) in China**

COEs are officially defined as “an economic form in which the means of production are collectively owned by the workers” (Tang & Ma, 1985: 615). Soon after the

founding of the PRC, COEs were established by the unemployed in cities and towns, and were based on the principles of voluntary participation, joint collection of funds, group work, mutual benefit and sole responsibility for profits and losses (Wang, 1994: 114). Many COEs were also set up with investment from local government departments or neighbourhood committees (*Beijing Review*, 5 April 1993: 17; Hannan, 1995). Woo (1997: 103) claims that COEs “represent localised socialism because a significant number of the shares are jointly owned by the local community, and while workers may hold some of the COEs’ shares, these shares are not legally transferable to non-workers”.

While state ownership played a dominant role in China’s economy before economic reforms, collective ownership was regarded as “a form of transition from private ownership to ownership by the whole people” (Xue, 1981: 56). Collective enterprises were long considered “the best method to accelerate the development of productive forces for the transformation to fully public property, the highest stage in the future, when the productive forces will be highly developed” (*Beijing Review*, 18 January 1982: 15). Driven by this ideology, urban collectives were often promoted to state ownership or quasi (i.e., local) state ownership during political movements such as the Cultural Revolution (Ishihara, 1993; Wang, 1994; see also Chapter 2). As a result, in 1980, COEs had 23.5% share of gross value of national industrial output (76% for SOEs, see Table 3-1) and employed 30.5% of the country’s total industrial population (69% for SOEs; Yang, 1992: 52).

China’s collective sector developed through three main phases (Lockett, 1988: 118; Kraus, 1991: 114). The first was through the socialist transformation of handicraft co-

operatives in the mid-1950s (see Section 2.2) and the second during the growth of neighbourhood industry in the early 1960s. The last phase took place during the movement to create jobs for urban youth in the late 1970s and early 1980s. During that period of time, over 10 million young people, who had been sent to the country to be 're-educated' by farmers during the Cultural Revolution, were returned to cities and, in addition, there were about 3 million new school-leavers seeking employment each year (Zhou, 1995: 149).

COEs in urban areas were classified into two categories. Those controlled by a district government or local industrial bureau under a municipality or a county were called 'major collectives' (*dajiti*), while others, affiliated with a neighbourhood under the district, were 'minor collectives' (*xiaojiti*) (Ishihara, 1993; Lockett, 1988; Qian & Xu, 1993). Many researchers have observed that the former (*dajiti*) bore more resemblance to state enterprises (e.g., Lockett, 1988; Naughton, 1996; Warner, 1996d). Both major and minor collectives were usually set up in branches of production that required less capital investment than SOEs, had relatively simple technology and a short production cycle such as handicrafts and simple types of light industry (Kraus, 1991; Zhou, 1995). Some COEs were established simply as subsidiaries of SOEs to help 'absorb' their surplus employees or employees' spouses and children (Qian & Xu, 1993; Xu, Y.C. 1996). According to Lockett (1988: 124), the productivity level of major COEs in 1980 was 60% of the state enterprises while minor COEs only achieved half (or less) of this figure. Therefore, COEs were considered less glamorous ideologically, less advanced technically and less important economically than SOEs (Battat, 1986; Lockett, 1988).

Theoretically, COEs were expected to differ from SOEs in their ownership, relations with the state, and HR practices (Lockett, 1988: 121-122). As COEs were owned by the workforce of the collective sector, rather than by the ‘whole people’ via the state, management of these enterprises theoretically lay in the hands of the employees, who should have the autonomy and rights to decide on their business operations, such as mergers and assets transfers. Second, being non-state enterprises, COEs should have a distant relationship with the state, qualifying for fewer subsidies because of hard budget constraints, and needing to compete for market share rather than relying on state distribution (Perkins, 1996). COEs were expected to be guided by state plans rather than being bound by them. Finally, due to the ownership structure and loose relations with the state, decisions over HR practices, such as staffing and compensation, should be made by the COE management rather than an external body.

In practice, however, these differences became blurred or even obliterated before the reform. Chinese collective ownership was “fictitious”, as most urban collective property was quasi-state-owned property controlled by various supervising bodies, such as a local government department, rather than by enterprise personnel (Putterman, 1996: 90). Similarly, as Kraus (1991: 116) has observed, “property rights over collective firms were frequently exercised by the corresponding administrative authorities at the next level, to which the collective firm was subordinate”. For example, the government had the right to transfer an enterprise’s resources or profits at will (*pingdiao*, Wang, 1994: 118; Zhu & Dowling, 1994: 6), regardless of whether the enterprise was state- or collective-owned. In effect, COEs were owned by both the collectives and the local government, though the government’s dominance was less pronounced in minor collectives than in major ones.

The relationship between COEs, in particular the large enterprises, and the government, was often like the relationship which existed between SOEs and the state. Brosseau (1995: 25.22) has noted that “the older pre-reform collectives, both rural and urban, had been gradually brought under the control of the planning system, especially at the county level”. Many COEs had little operational autonomy, with local government exercising real control over the management of ‘collective’ assets, including production plans, sale of products, distribution of profits, funding, investment, and personnel (Putterman, 1996; Naughton, 1996). Using resource allocation as an example, essential materials were allocated almost entirely by state planning bodies according to the principle of “SOEs first and COEs later” (Ishihara, 1993: 30). This meant COEs received “second-class” treatment, and often had to forfeit their share of materials in situations of low supply (Lockett, 1988: 126). Dong Furen (1982: 127), a noted Chinese economist, claimed that “by the 1970s, there was virtually not a single enterprise of collective ownership that was responsible for its own profits and losses”.

In the area of HR practices such as staffing and compensation, COEs possessed minimal autonomy and were again often treated as second-class enterprises. For example, while COEs were also allocated workers through the state system of labour allocation rather than having the right to choose their own workers, they were “often burdened with obligations that state-owned enterprises were exempted from, such as obligatory hiring of unemployed persons, physically disabled persons and vagrants” (Ishihara, 1993: 30). In addition, COEs were seldom allocated graduate level personnel, and had no access to skilled workers or managers from state enterprises (Lockett, 1988). Similarly, COEs had little power in determining their compensation



packages. Wage scales were usually set by the local labour authorities, following a system similar to the national eight wage grades for state enterprise workers, but generally below the levels paid in SOEs (Ishihara, 1993; Kraus, 1991; Li, W.Y. 1991). The payment of post-tax profit as dividends to COE workers had been abolished in 1967 when the Cultural Revolution started (Naughton, 1996: 165). Not only did COE employees, particularly those in minor COEs, have to tolerate the lower pay, they also received very limited welfare or other benefits. For example, few COEs provided housing for their employees in contrast to SOEs (Lockett, 1988). The allocation of low skill employees to COEs and their lower wage levels all contributed to COEs' low productivity prior to the reform.

In 1981, the Party and the State Council passed a decision to invigorate the economy and solve urban employment problems, and local governments were urged to set up different types of collectives with investment from individuals as well as from state and collective enterprises (Sabin, 1994). To facilitate the establishment and growth of COEs, the government not only offered financial incentives through the tax reform (e.g., reduced or adjusted marginal tax rates), but also decentralised more authorities to collectives. Four major changes in the collective sector were sparked by the reform (Wang, 1994: 107). The first was that enterprises rather than the supervising government authority had to assume responsibility for profits and losses, thus reducing their dependence on the local government. Second, self-autonomy and flexibility were returned to COEs, allowing them to adopt diversified business operations appropriate to their situation. Third, instead of using the local government-fixed wage scale, COEs could design their own wage packages and link compensation to performance, and dividends could also be restored to offer incentives to collective owners. The final

change was to encourage democratic management in the collectives through employee participation and a share-holding system for employees.

The government's efforts to develop COEs were legitimised in 1991 with the promulgation of the State Council's document 'Regulations for Urban Collectively Owned Enterprises of the PRC' (Sabin, 1994: 950). The document provides a broad definition of 'collective ownership' that basically grants collective status to any enterprise in which private individuals own no more than 49% of total assets. The Regulations delegates to COEs the right to engage independently in production and service activities and establish their own economic responsibility systems and compensation methods. With the acceleration of the reform, many collective enterprises became more flexible and aggressive than state ones by competing for scarce materials and even "poaching" SOE markets (White, 1993: 127). Some researchers have noted changes occurring in HR practices especially in COEs in terms of staffing and compensation (Cyr & Frost, 1991). Sabin (1994) also reported that some COE managers claimed that, under their jurisdiction, they could adopt performance-linked wage systems, hire whomever they wish and lay off workers with advance notification (Sabin, 1994).

Consequently, the growth rate of the non-state sector including collectives was much higher than that of the state sector. Employment in urban collective enterprises rose by 77% over the 1978-92 period, compared to 46% in state enterprises (Sabin, 1994: 950). The average annual growth rate of the urban collective industry was 14.4% between 1978 and 1991, outpacing the state sector's rate of 8.9% (Wang, 1994: 116). The impressive progress of collectives indicated that significant changes had occurred

in the content of ownership, with the collective sector seeing more devolution of rights. Even so, residual control rights and rights of alienation (the right to sell the enterprise) remained in the hands of the government, as noted by researchers (e.g., Putterman, 1996; Wang, 1994). For example, Wang (1994: 118) has pointed out that one obvious problem existing in COEs was the assignment of senior managers via the nomenclature system. Most directors or general managers were either assigned by the government or nominated by the government as candidates and then selected by employees via popular vote (*guanding minxuan*). This practice enabled the government to retain control over the enterprise.

While the government is encouraging diversified ownership and there is a projected decline in state ownership, Zhang Zhigang, the Vice-Minister of the State Economic and Trade Commission, has declared that “collective ownership, rather than private investment, will continue to dominate China’s economy, maintaining socialist principles” (*Beijing Review*, October 20, 1997: 6). The state’s emphasis on the development of COEs has raised some questions. These include whether the flourishing of collective enterprises is partly due to their different HR practices, what changes are evident in the management of human resources in the collective sector, and whether collective ownership has any influence on HR practices. These questions are addressed in the RadioCo case study in this chapter and by the survey results presented in Chapter 10.

### **7.3 Data Collection Methods**

The same data collection methods were employed in this case study as the previous one, that is, documentation, interviewing and direct observation. Documentation

included pamphlets on RadioCo’s history, brief job descriptions for some positions, and performance assessment sheets with detailed criteria for each department or workshop, and for cadres. Direct observation took place during the one-week field study, including visiting each department and workshop, participating in a routine workshop meeting, having lunch in the factory’s canteen, and talking freely with workers and staff of the factory.

The interviews were conducted entirely within the factory grounds, that is, either in the manager’s office or in the factory meeting room. The average length of interview was approximately one hour with individuals and two hours with groups. Twenty-two people were interviewed as indicated in Table 7-1.

**Table 7-1 Interviewees – RadioCo case study**

<ul style="list-style-type: none"> <li>• Director/Party Secretary and Chairman of the Board</li> <li>• Vice Party Secretary (in charge of the Party affairs Office)</li> <li>• General Manager (2 interviews)</li> <li>• Deputy General Manager (production)</li> <li>• Deputy Director and Chairman of the trade union (trade union)</li> <li>• Head of Department (Department of Labour, Personnel &amp; Education) (2 interviews)</li> <li>• Manager (Department of Labour, Personnel &amp; Education - training) (2 interviews)</li> <li>• Manager (Department of Labour, Personnel &amp; Education – wage &amp; welfare)</li> <li>• Manager (Department of Research and Development)</li> <li>• Manager (Department of Production)</li> <li>• Line Managers (2, from Workshop 1 &amp; 2 respectively, interviewed in one group)</li> <li>• Line Manager (2, from Workshop 3 &amp; 4 respectively, interviewed in one group)</li> <li>• Supervisors (2, interviewed in one group)</li> <li>• Production workers (6, interviewed in two groups, each of 3)</li> </ul>
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As RadioCo was nominally split into two units (Radio Firm and Radio Plant), it had one senior manager who was the Chairman of the Board of Radio Firm, and

concurrently Director/Party Secretary of Radio Plant. This manager was the real head of RadioCo. The General Manager was ranked number two in RadioCo, assuming responsibility for day-to-day management work of Radio Firm as well as the labour and personnel administration of the whole factory (including Radio Firm and Radio Plant). The General Manager was interviewed twice, as were the two other managers in charge of labour and personnel administration, who gave detailed accounts of the management of human resources in both Radio Firm and Radio Plant. The final draft of this case study was checked and commented on by both the first and second heads of RadioCo.

## **7.4 Case Enterprise – RadioCo**

RadioCo was selected for this study because of its type of ownership, location, the industry it was in, and its size (see Section 5.3.2). Its features made it comparable with the other three enterprises chosen for the case studies. To understand HR practices in RadioCo during Mao's regime and then the reform era, background information about this factory is presented first, covering its history and ownership, organisational size and structure, its business strategy and the emerging role of the HRM function.

### **7.4.1 Enterprise history and ownership**

RadioCo was established in 1958 during the Great Leap Forward movement when people were urged to participate in industrial production to speed up the construction of the socialist state. At the time, RadioCo was a small co-operative attached to a large state-owned radio enterprise, and was run by the family members of the employees of the large enterprise. RadioCo took on the unemployed spouses and children of

employees of the radio enterprise, and received from it manufacturing orders for some simple radio components such as radio transformers. The co-operative continued to employ those family members and by 1964 it had had over 100 employees. In 1964 the local district government took over control of the co-operative, thus transforming RadioCo from a minor collective (*xiaojiti*) attached to a state enterprise to a major COE (*dajiti*) led directly by the local district government.

In the early 1970s, the district government decided to merge the radio workshop of another collective enterprise with RadioCo, and to amalgamate those with a nursery farm. As a result of these mergers, the factory expanded, became better equipped and had employees allocated by the district government. Between 1966 and 1976 the factory did no recruiting itself but received employees assigned by the local government, including school-leavers, young people returning from the farms and demobilised soldiers. In 1976 the factory also took on employees' children who 'inherited' their parents' work in RadioCo. By the end of 1976, RadioCo had more than 400 employees.

Under the planned economy, major collectives such as RadioCo had production plans and quotas like state enterprises. They differed from state enterprises, as the Director of the factory explained, in the level of government that controlled them, the production quotas they had to meet, and how resources were allocated to them. RadioCo was controlled by the local district rather than by higher levels of government. The district government formulated production plans and set quotas for the factory, which were usually lower than in state enterprises. This was because collective enterprises were not guaranteed supply of their inputs, as the priority of

resource allocation was always given to state enterprises. While RadioCo fulfilled the production quotas, its inputs and outputs were co-ordinated by the district government. This meant that the government offered assistance in obtaining scarce materials and distributing its products.

In 1980, the Municipal Radio Conglomerate (MRC), a specialised corporation led jointly by the Ministry of Electronic Industry and the local municipal government, was established, and gained directed control over all radio factories and companies in the city. RadioCo's governing authority was shifted from the district government to the MRC, while its collective ownership remained the same. Under co-ordination by the MRC, RadioCo started to manufacture TV components in the early 1980s. In 1985 the factory imported the first colour TV component production line from Japan, and its products were sold directly to a large state-owned TV enterprise that was a key member of the MRC.

Since the mid-1980s, RadioCo no longer receives production plans and quotas from its governing authority. Instead, it has negotiated its annual tax rate with the MRC and is responsible for its own inputs and outputs, as well as for its profits and losses. However, this did not mean that RadioCo was completely autonomous. Whenever the factory needed funding, it had to obtain a government guarantee in order to receive a bank loan. The local government still controlled RadioCo's total wage bill and had the right to adjust wage levels. In addition, the factory had to accept employees allocated by the local government and was not able to retrench its redundant employees.

In 1988 the municipal government replaced the factory's senior management team because of their poor performance and the losses incurred. A new Party Secretary and a Director, both of whom came from another large SOE manufacturing radio and electronic products, were appointed. The new management team emphasised the development of new products according to market demand, and succeeded in obtaining subcontracts from the SOE they came from. Since the early 1990s, RadioCo has progressed from making losses to earning profits, but the improvement has resulted in increased tax payments to the local government, because the tax-rate had been negotiated in light of its new financial situation.

In December 1993, RadioCo formed a so-called joint venture with a Hong Kong company and the original business was nominally split into Radio Firm and Radio Plant (see Figure 7-3). The joint venture was described as 'so-called' because the Hong Kong company contributed in name only 25% of the equity that was required by the joint venture law, and RadioCo remained a collective factory. To outsiders, RadioCo became two separate entities, but to insiders, it was still one factory. The General Manager explained that there were four incentives for setting up such a joint venture. First, Radio Firm, the joint venture division of RadioCo, could enjoy the tax holidays granted to joint ventures, i.e., it would be exempt from tax for two years once the company started to make profits, and then it would pay half of the normal tax for another three years (*liangmian sanjiabai*). Second, as a joint venture, Radio Firm would experience less interference from the government, and thus enjoy more freedom in its business operations. Third, joint ventures were not bound by the wage limits set by the labour bureau so long as they paid 20 to 50% more than their counterparts in the state sector. They also had more autonomy in designing their own wage packages.



RadioCo expected to link compensation more tightly to performance in its joint venture division (Radio Firm), and then adopt similar arrangements in Radio Plant.

Finally, RadioCo wanted to introduce new management systems, especially in the area of HR practices, such as a merit-based selection and promotion system and a remuneration scheme more closely based on each employee's contribution. The General Manager believed that new management practices would be more easily introduced and implemented in a foreign joint venture because of its reputation as an efficient workplace where high performers would be rewarded and low performers would be sacked. Taking into account the benefits that a joint venture could enjoy and its reputation as a better management system, RadioCo restructured its organisation in late 1993, as discussed in the next section.

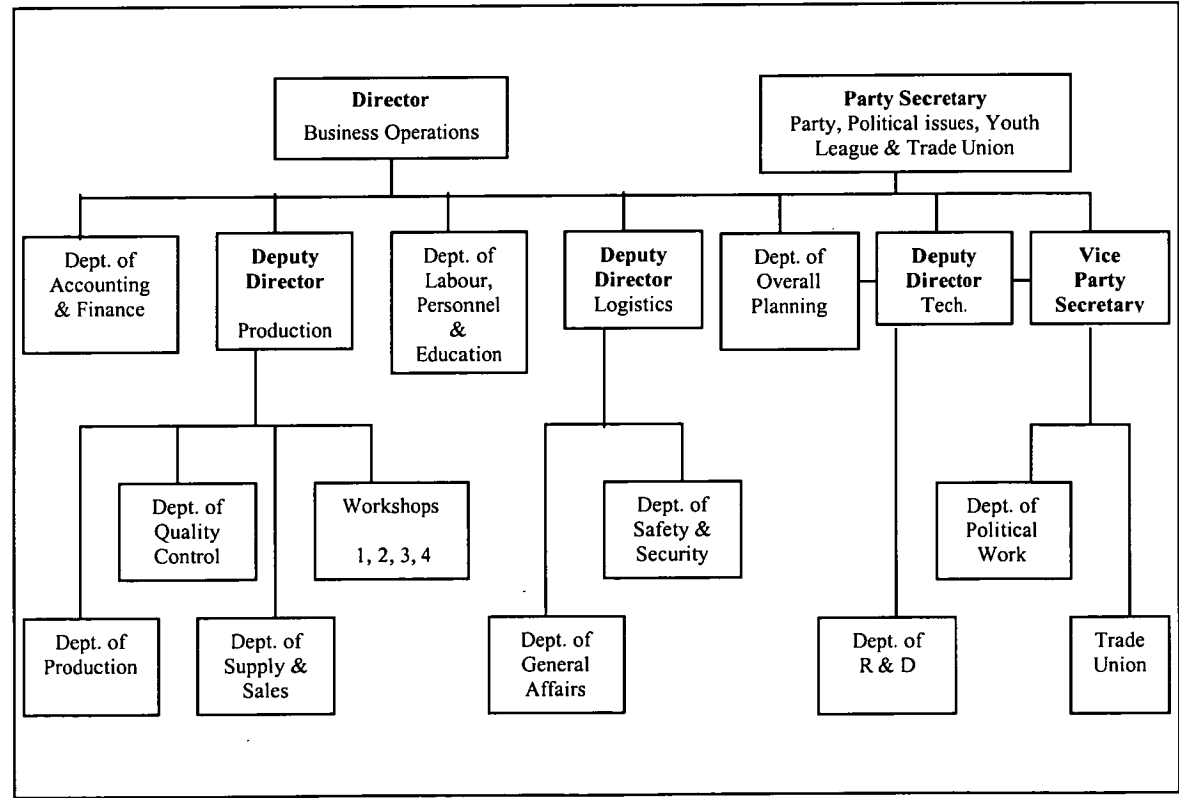
#### **7.4.2 Organisational size and structure**

In 1994 RadioCo employed 760 staff and workers and its total output in 1993 was 60 million yuan, or about 78,950 yuan per head annually. Radio Firm (joint venture) employed 387 people who were all on a three-year contract and the remaining 373 employees were on the payroll list of Radio Plant. Only employees hired after 1983 were on contract while employees hired earlier held tenured positions (i.e., iron rice bowl). By 1994, the factory's structure had become quite different from what it was from late 1978 to early 1992.

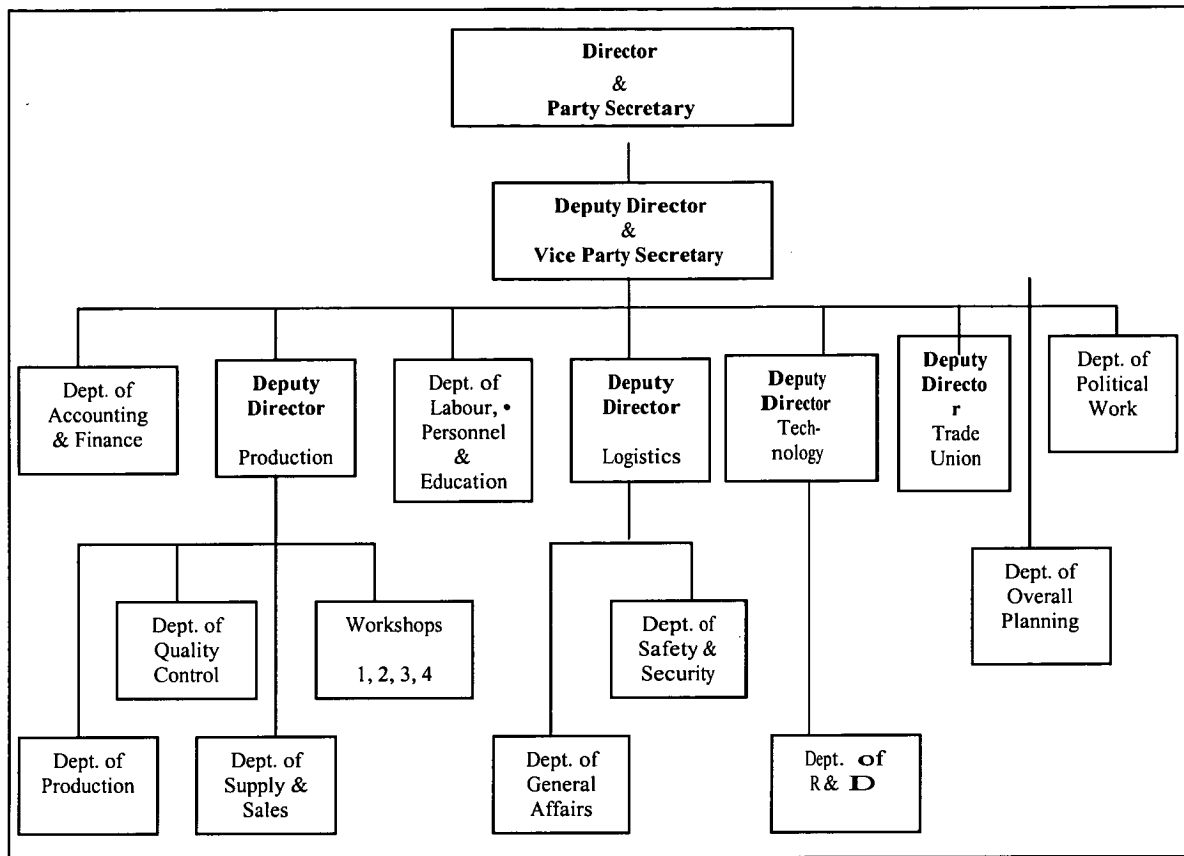
Prior to February 1992 the factory had separate positions for Party Secretary and Director - each with a different work focus (see Figure 7-1). The Director was in charge of production, while the Party Secretary assumed the responsibilities of the

Party's work, political education and movement, leadership of the Youth League (a political body for young people that was led directly by the Party), and the trade union. In the mid-1980s, with the implementation of the 'factory director responsibility system' (see Section 3.4.1), the Director's position was upgraded, while the Party Secretary's role became much less significant. This arrangement was criticised for weakening Party leadership after the Tiannamen Square Incident of 1989, and in early 1990 the Party Secretary's political role was re-emphasised, giving it more extensive involvement in the factory's business operations. However, the new arrangement led to increased disagreement or disputes between the two heads. To reduce the conflict between the Director and the Party Secretary, the two positions were merged in early 1992, with the previous Director taking on the additional role of the Party Secretary, while the Party Secretary became the Deputy Director and Vice Party Secretary (see Figure 7-2).

Figure 7-1 RadioCo Organisation Chart (from October 1978 to February 1992)



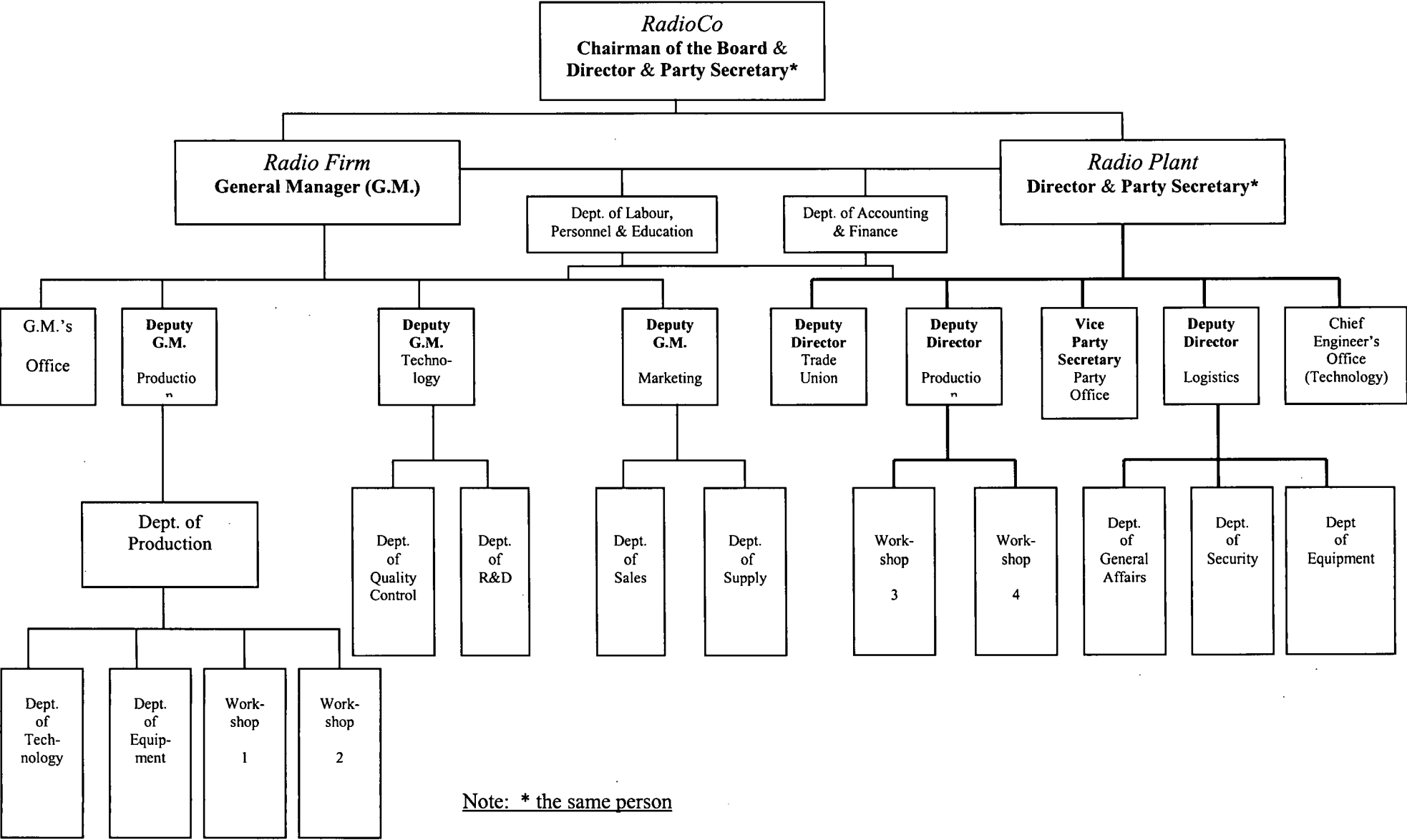
**Figure 7-2 RadioCo Organisation Chart (from March 1992 to November 1993)**



Comparing Figure 7-1 with 7-2, it can be seen that except for the merger of the two top positions, the department structure remained largely unchanged, except that the trade union had acquired a Deputy Director as its head rather than being led by the Vice Party Secretary. RadioCo's structure became more complicated in December 1993 when part of RadioCo formed a joint venture. In Figure 7-3, RadioCo appeared to be split into Radio Firm (joint venture) and Radio Plant. However, they shared one Department of Accounting and Finance and one Department of Labour, Personnel and Education. These two departments were led jointly by the General Manager of Radio Firm and the Director and Party Secretary of Radio Plant (who was also the Chairman of the Board of Radio Firm).

Figure 7-3 RadioCo Organisation Chart (from December 1993 onwards)

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As indicated in Figure 7-3, the General Manager of Radio Firm assumed more responsibility for labour and personnel administration of RadioCo as a whole (e.g., human resource planning and distribution of bonuses), while the Director and Party Secretary of Radio Plant remained focused on the whole factory's business operations. However, the structure shown in Figure 7-3 was not as clear-cut as it appeared. For example, the Deputy Director of Radio Plant in charge of trade union affairs looked after employees from both Radio Plant and Radio Firm. And the Department of Research and Development (Dept. of R&D) provided its research results or newly designed products to either Radio Firm or Radio Plant depending on their production needs. Two workshops became part of Radio Firm because their products had potential for an overseas market, and RadioCo's managers believed that the foreign joint venture's name would facilitate the marketing of such products. The other two workshops remained with Radio Plant as their products mainly served the domestic market. Overall, the restructuring of RadioCo did not change its ownership or its business, but increased the number of senior managers and departments, and theoretically reduced its tax liabilities (the joint venture had run for less than one year when the case study was conducted).

#### **7.4.3 Business strategy and the emerging role of the HRM function**

The business strategy of RadioCo before the early 1990s was simply to obtain more orders or contracts from the SOEs that belonged to the MRC. In 1994 its strategy became more comprehensive and was expressed in six steps, that is, 'face the market, adjust product structure, develop external customers, deepen the reform, accelerate development and let the enterprise prosper'. The Director/Party Secretary provided details on each of the steps. 'Face the market' required RadioCo to be guided by the

market - i.e., to find what the market needs, to produce according to market demand, to be competitive in the market and to increase its market share. With increased competition from both domestic and foreign markets as well as accelerated reforms in the state sector, the SOEs that RadioCo had depended on for sales were forced to develop new products, improve their efficiency and reduce production costs by manufacturing some components themselves instead of subcontracting to others. By the end of 1993, half of the 30 radio and electronic enterprises belonging to the MRC were making losses, and most of them were SOEs. RadioCo could no longer rely on these SOEs for guaranteed orders and thus, it too had to face the market.

‘Adjust product structure’ meant that the mixture of products had to be modified according to market needs. Traditionally, RadioCo had manufactured only those products required by the SOEs that were its major clients. With the rapid development of technology in this industry and the pressure of market competition, the factory had to develop new products and restructure the mix of its current products. More funds and effort had to be invested in the research and development of high-tech products that were seen as critical for increasing RadioCo’s competitiveness. ‘Develop external customers’ indicated that instead of restricting their clientele to the few SOEs introduced by the MRC, the factory needed to channel its sales into other parts of China and even overseas. RadioCo’s joint venture partner in Hong Kong would promote RadioCo’s products in Hong Kong and also introduce advanced technology and products to RadioCo. This would help RadioCo to actively seek out new customers rather than waiting passively for customers to approach. ‘Deepen the reform’ highlighted the need to strengthen enterprise management by, for example, continuing management by objective (MBO), optimising the work teams (to be

discussed later), improving the performance appraisal system, and linking compensation to performance.

‘Accelerate development’ called for more effort to be put into factory development. RadioCo went from making a loss to breaking even in 1990 and then to making a profit in 1991. It was not as easy for COEs as for SOEs to obtain ‘soft loans’ (long-term loans with very low interest rates) from the bank, so the factory usually had to rely on itself to purchase or import new equipment. The factory also had to invest in a dormitory for its newly recruited university graduates in 1992 to be competitive in attracting qualified staff. This required further growth in profits to fund enterprise-supplied accommodation. Finally, ‘let the enterprise prosper’ expressed RadioCo’s aim to achieve better economic results.

To achieve the results outlined in such a strategy, as the General Manager pointed out, RadioCo had to rely heavily on its human resources to develop new products, enter new markets and improve its efficiency. Some examples were given to show how the factory tried to attract and develop its human resources. First, in order to recruit newly graduated university students, RadioCo supplied them with accommodation. It was the first time in RadioCo’s history to offer such luxurious welfare benefits to attract suitable employees. Second, unlike many other enterprises, RadioCo’s HR department was called Department of Labour, Personnel and Education (hereafter called the Personnel Department), which had placed an emphasis on education and training since 1980. This Department began to practice recruitment and selection in 1992. The efforts of this department resulted in an impressive increase in the education levels of RadioCo’s employees. Before 1976 not a single employee at RadioCo had a tertiary

education. By the end of 1993, the factory had more than 90 employees with a tertiary education and more than 70 with technical school certificates. Even more significant was the fact that all managers at middle level (head of department) and above had a tertiary education. The factory's effort to recruit qualified employees and its investment in its employees' training indicated an emerging role of the HRM function. Furthermore, as one of the primary motivations for forming the 'joint venture', RadioCo was planning to introduce Western-style HR practices, such as merit-based recruitment and selection, and performance-related compensation, to its 'joint venture' division and then to the whole factory. This intention also reflected a growing emphasis on the HRM function in the factory's business operations.

## **7.5 HR Activities at RadioCo**

In 1994, RadioCo's Personnel Department assumed a set of responsibilities for HR activities, including human resource planning, workload assignments for job positions, recruitment and selection, wage and bonuses adjustment and distribution, training and education, internal and external transfer of employees, keeping records regarding employees' work attendance and administration of employee insurance. This section examines whether these activities existed at RadioCo during Mao's regime, and then highlights the changes in these activities during the reform era. It also analyses the impact of ownership type on RadioCo's HR practices.

### **7.5.1 Human resource planning**

Under the planned economy, RadioCo had neither state-formulated human resource plans nor state-fixed quotas on cadres. This was because the state had never allocated



any university graduates to the factory before 1986, and the local government had assigned only a limited number of cadres, such as the factory director and the Party secretary. Yet, like state enterprises, the factory's total payroll was controlled by the labour bureau but at the district level. Whenever the factory wanted to increase its workforce, the local government had to approve its plan, or it would not receive extra payment for the new employees.

Human resource plans were therefore prepared on an *ad hoc* basis by the factory and were usually quite simple, for two reasons. First, the history of the factory had left it without the expertise necessary to develop long-term plans. The factory had been established as a co-operative mainly run by housewives with low education levels and manufactured products that only required low technology and elementary equipment. It was self-funded with little financial support from the state, and could not afford to update its equipment or invest in product development. In addition, it had never been assigned any skilled workers by the state before 1986. Rather, it received only school-leavers, 're-educated' young people returning to the city from the country and demobilised soldiers allocated by the local government. RadioCo could only afford to depend on the quantity rather than the quality of people. Second, RadioCo used to rely on SOEs for subcontracting and did not have its own business strategy. Consequently, its human resource planning was dependent on the incoming production orders, and could only be short-term oriented.

The factory improved its human resource planning since the early 1980s when the factory started to produce TV components, especially after it imported a production line from Japan in 1985. The factory began to construct its own business plans, and,

based on stated business requirements, human resource plans were formulated with a focus on the quality rather than quantity of employees. Usually senior managers and the head of each department would be involved in deciding the type of people to be recruited. Since 1986, the local government had assigned both university and technical school graduates to the factory. However, it was a top-down one-way assignment: neither graduates nor the factory had the freedom to select each other. This not only caused mismatching (to be discussed later), but also interfered with RadioCo's plan to recruit suitable individuals.

In 1992 the factory was allowed to select graduates according to its own plans rather than merely accepting those assigned by the government. Also in 1992 the factory started to earn profits and was able to invest in updated equipment and facilities. It also commenced the search for new markets by developing new products instead of relying solely on subcontracting. The demand for product development forced the factory to carefully select recruits according to need. In 1993, the factory's human resource plan emphasised two aspects: which graduates were to be recruited and which redundant employees were to be relocated. Regarding graduates, the plan clarified the specialisations and qualifications of graduates and the number of each type required according to plans for product and production developments. Relocation of redundant employees occurred after the analysis of job responsibilities (*gongzuo zhize*), workload allocations, and personnel requirements.

Job responsibilities were initially drafted by the factory's 'Enterprise Management Office' in the mid-1980s. The office staff lacked the knowledge and skills to carry out job analysis, and could only produce vague outlines for many positions. In the late

1980s, this office was abolished with its task transferred to the Department of Overall Planning. Job responsibilities were drawn up for the different positions in each department and given to the departments for implementation. However, these descriptions of job responsibilities were still quite generalised, and few aspects could be measured objectively. In 1990, the Personnel Department was required to work together with the Department of Production to assign workloads to job positions, mainly in the workshop. The workload assignment provided a guideline in the push to 'identify the exact number of job positions and number of people required for each position' (*dinggang dingyuan*) that was launched in 1991 by each department. The aim was to ascertain whether each position carried a full workload - i.e., was one person doing the job, or were two or three people covering the one job, as was common practice before the reform. From this analysis, the factory identified redundant employees and relocated some of them to different positions in 1993 and 1994.

When this case study was conducted, RadioCo's human resource plan was developed on an annual basis. The personnel manager explained that although longer term planning - such as a three-year human resource plan - would be ideal, it was unrealistic because of the restrictions imposed on the factory and uncertainties caused by the economic transition. For example, in 1993 and 1994, while the factory had identified redundant employees and removed them from job positions, the factory was not allowed to retrench them as the government did not want to 'abandon' them and cause instability in society. The General Manager complained that the factory could only remove people from work positions but not from its payroll list. Apart from this, the factory had to follow the government's instructions on unified wage increases. In 1994, everyone was to be given a 30% increase. Although the increase was mainly to

compensate for high inflation, it greatly increased the factory's costs and disturbed its business plans. Furthermore, competition in the market was still not equal, as SOEs had greater access to government loans and scarce raw materials at a lower price than COEs. In the absence of full control over its own business, RadioCo could not really plan its human resources.

### **7.5.2 Recruitment and selection**

Since its establishment, RadioCo could 'freely' take on new employees so long as they were required by the production demands or government policies (such as 'occupational inheritance') and approved by its governing authority. In effect, its governing authority, whether it be local district government, local labour bureau or the MRC, had the real power over recruitment, because RadioCo had never refused to accept anyone allocated to it. Before the reforms, the low skill level required for the jobs enabled the factory to take on any job-seeker who was a permanent urban resident, had no criminal record, was not illiterate and was in good health. From 1966 to 1991, RadioCo itself did not recruit or select anyone but rather employed only the people allocated by the local government or the children of its retired employees who inherited their parents' jobs (*dingti*). Thus before 1992, the activity of recruitment and selection, in the sense of its Western definition, did not exist in the factory.

In 1982, for the first time in its history, RadioCo was assigned four university graduates. Since then, the factory has been allocated some technical school or university graduates nearly every year. But by the end of 1990, many of these graduates had left RadioCo for several reasons. The most common problem was that collective enterprises, compared with state ones, were much less attractive in terms of

working conditions, career opportunities, wages and welfare benefits (e.g., no housing benefit was offered by RadioCo before 1992). Whenever possible, graduates would transfer themselves to SOEs or other companies. The second main reason was the mismatch between the graduates' knowledge and the job requirements caused by 'top-down one-way' allocation. Normally graduates had no right to select their preferred job or organisation after graduation. Instead, they were assigned by the state, which resulted in a mismatch of candidates and jobs.

Since 1992, RadioCo was allowed 'two-way' selection so that the factory could either select from the university or from those recommended by the government, while the candidates could select organisations. RadioCo sent two or three personnel staff to careers fairs organised by the Electronic Bureau in Nanjing and Shanghai at the end of 1992 and 1993, in anticipation of the June graduation. At the careers fairs, each organisation had an information stand to promote itself. Those graduates interested in the organisation would meet recruiters to discuss the jobs, wages, working conditions, and welfare benefits available in the organisation. If they wanted to apply, they would hand in their resumes, academic records and a recommendation letter written by the department or school from which they would graduate. The recruiters would then shortlist applicants for interviews if there were too many. In effect, RadioCo did not have formal interviews as their recruiters usually had a face-to-face talk with each applicant at the stand and made their decisions by the end of the fair.

The personnel staff handling recruitment and selection were not technical staff, so the area of speciality and the academic results of the applicant became their major selection criteria. The area of speciality was their top priority to ensure a proper match

between the applicant's knowledge and the demands of the job. To attract the right people, the factory started to offer accommodation to those recruited from other cities since 1992. Even though three new recruits had to share one dormitory room, this offer still helped RadioCo to attract more applicants. The factory recruited ten graduates in 1992 and seventeen in 1993 (among the seventeen, thirteen had tertiary education while four had technical school education).

Recruits with tertiary education, either a 2-year college associate diploma (*dazhuan*) or a 4-year university degree, belonged to the cadre category. This meant they did not need to sign a contract with RadioCo, as the contract system introduced to the factory in 1983 applied only to workers. However, since the establishment of Radio Firm in late 1993, everyone working for RadioCo's 'joint venture' part had to sign a 3-year contract. Contract-based employees had a three-month probationary period. If both parties were satisfied, the contract could be renewed for one to five years, and confirmation by the local labour bureau was required for each contract. In 1994, the Municipal Labour Bureau announced that, by the end of 1995, all employees, including cadres and workers, in that city were to be employed on a contract basis. This development would blur the distinction between cadres and workers, permanent and temporary employees.

### **7.5.3 Performance appraisal**

Before the reforms, RadioCo did not conduct performance appraisal for most employees. The employee who performed extremely well might be elected by co-workers or selected by management to be a model worker at the end of the year, and would be spiritually rewarded (to be discussed more in the next section). The

performance of senior managers such as the director or the Party secretary was assessed by the local government rather than RadioCo. In 1979 the factory restored the bonus system, which offered incentives to high performers through bonuses linked to each person's performance. From then on, performance appraisal became a regularly conducted HR activity with its major purpose being for compensation.

In the early stages of performance appraisal, workers' performance was assessed on the basis of their attendance and working hours, but non-production workers had no formal assessment, and their bonuses were based on the average of the workers'. With establishment of the job responsibility system in the mid-1980s, the assessment criteria became based on the list of responsibilities for each job position. In the late 1980s, the criteria related to workloads assigned to each position. Since the early 1990s, the factory has been using MBO, that is, the factory divided its overall objectives between the departments, and each department distributed its sub-objectives to each production line or work team. Because of this system, performance appraisal was formally conducted at two different levels. It was conducted at the department level for the majority of employees, and at an individual level for middle-level managers. 'Formally conducted' indicated that there were specific assessment criteria with a written assessment sheet, and appraisal was conducted on a regular basis (at the end of each month).

The performance criteria for each department were set up by the senior managers and head of each department, including the personnel manager. According to the objectives to be achieved, each department's performance was assessed in three areas: the achievement of economic objectives, the satisfaction of quality requirements, and

the conduct of management activities. A total of 100 points was allocated to these three aspects. Take performance criteria for the Department of Production as an example. Of the 100 points, 40 were allocated to the achievement of economic objectives, which referred to the quantity of products produced, the materials consumed and the total cost incurred. Another 40 points were for the satisfaction of quality requirements, such as the adherence to processing procedures and standard, three-level (i.e., individual, group and workshop) quality check-up, and the number of rejected products. The last 20 points were assigned to the conduct of management activities, including the implementation of MBO, the activity of Quality Control groups, and adherence to safety rules and regulations. Within each area, there were more detailed guidelines for point allocation as well as rules for increasing or decreasing marks as reward or penalty.

The performance appraisal for each department was conducted monthly by the department itself first and then by the factory's Assessment Committee composed of senior managers and managers from the Personnel Department and Department of Quality Control. There was an assessment sheet for each department with details for mark allocation. The marks obtained would then determine the bonuses it would receive. Within each department there was no formal assessment for individual performance, which was based on assigned workload and attendance. This meant if employees fulfilled their workload and had not been late for or absent early from work, then they would pass the assessment conducted verbally by their direct supervisor. The supervisor would inform the subordinate if any problems arose in their performance, which would result in the deduction of their monthly bonuses.



The formal performance appraisal of managers at and above middle-level (e.g. head of department or office director) was conducted by RadioCo's Party Office rather than by the Personnel Department. This was because over 60% of them were Party members (30 out of 48). It should be noted that even after the split of RadioCo into Radio Firm and Radio Plant, the Party Office of Radio Plant remained in charge of all the cadres of both divisions. For management appraisals, 100 points were allocated to four aspects of performance, including 15 points for occupational ethics or good moral practice (*de*), 15 for professional competence (*neng*), 10 for working attitudes and attendance (*qing*), and 60 for performance results (*jie*). Under each aspect, specific items were allocated marks. For example, *de* included whether instructions and decisions were followed and implemented, how co-operative the manager was, and to what extent responsibilities were undertaken; *neng* referred to both technical and managerial skills; *qing* covered attendance and how well the manager set an example; and *jie* covered quantity and quality of work completed, as well as the contribution made to the factory.

Only the assessment of performance results (*jie*) was based on the completion of the department objectives and thus had quantifiable measures. The other three aspects, except for attendance which was kept on record, were assessed on a three-level scale, i.e. excellent, good and below average, without other specifications. The Vice Party Secretary, in charge of the Party Office and the assessment of middle-level managers, explained that the governing authority required that cadres be assessed in terms of the four aspects (i.e., *de*, *neng*, *qing* and *jie*), but did not provide detailed guidelines for appraising each aspect. RadioCo's senior managers all believed that, to 'seek truth after the fact' as advocated by Deng Xiaoping, a manager's performance should be

assessed on his/her achievements. The factory allocated most marks (60 out of 100) to performance results to encourage result-oriented management.

The middle-level managers' appraisal procedure included a self-assessments and then assessment by their direct supervisor and the Party Office. This appraisal was not only for bonus distribution, but for promotion as well. In regards to promotion, the Personnel Department was required to ask the relevant manager's subordinates for their opinions, which were used at the senior managers' meeting as part of the information for decision-making.

In the performance appraisal process, the Personnel Department played three main roles. The first was to assist in the determination of the workload for each job position, which then formed the basis of individual performance criteria. The second was to keep records of employees' attendance, which was another assessment criterion. The last role was to be involved in appraising each department's performance (but not an individual's performance). According to the personnel manager, the Personnel Department was planning detailed performance criteria for each position in 1995 so as to improve the link between performance and pay. A further reform in bonus distribution, which is explained in the next section, had created even greater need for this additional step.

#### **7.5.4 Compensation and welfare**

Before 1984, RadioCo used the 8-grade wage system fixed by the local labour bureau, which was similar to the one used in SOEs but at a lower level, that is, each grade was about 25% lower in RadioCo than its counterpart in the state sector. The determinants

of each person's wage grade were the job position held, seniority and government policies. For example, RadioCo did not give any wage increases during the Cultural Revolution (1966-76). In 1983, government policy allowed only 2% of its employees to have a one-grade increase in their wages, and in 1984, another 3% of employees had an increase. Also by government requirements, the wage increase depended mainly on seniority. As RadioCo's total payroll was controlled by local government, any increase had to be approved by the government.

In 1984, the factory introduced a floating wage system composed of basic pay and performance pay. The basic pay – 70% of total pay - depended on one's job position and seniority, while the performance pay (30%), was determined by one's attendance and task completion based initially on defined job responsibilities and then on workloads. While the aim of adopting floating wages was to link compensation to contribution, this was not really achieved because of two flaws. First, the job responsibilities were only briefly described, especially for non-production employees. Although workloads assigned to job positions were more detailed, they still lacked objective and quantifiable measurements for non-production workers. It was difficult to accurately link pay to performance. Second, the local government continued to control the total payroll, making it impossible for the factory to increase employees' wages at its own discretion. Although this control had been loosened and decentralised since the reform, the total payroll remained unchanged since 1986. This meant the factory could increase or decrease the total number of its employees so long as it did not change its total payroll (unless it made above-quota profits). As there were restrictions on retrenchment of its redundant employees, the factory's ability to

increase high performers' wages by reducing the total number of employees was greatly limited.

In 1993, guided by government policies and regulations, RadioCo designed its own position-and-skill wage system. Instead of relying only on workloads, the new system took more job-related factors into consideration, including the qualifications obtained, workloads involved, labour intensity and working conditions. Under the new system, pay could be differentiated according to level of responsibility and qualification. It encouraged people to assume more responsibilities and to obtain higher qualifications, with the result of an increasing number of employees who obtained higher degrees through part-time study (to be discussed in the next section).

Nevertheless, when the 22 people interviewed for this case study were asked about their attitudes toward this new wage system, their answers were not particularly positive. Although they all believed that this system was better than the floating wage system as more relevant factors were considered in determining the wage scale, none of them was actually satisfied with the wage they received. Their complaints centred upon three issues: the government's interference in wage determination, low wage scales, and the small difference between each grade. First, the government still had control over the total payroll and imposed a 'ceiling' on wage scales, even though the factory was supposed to make its own decisions. Second, despite the fact that RadioCo was making profits, its wage scale was still much lower (about 30%) than the scales in the loss-making SOEs and was not even remotely comparable to that of foreign invested enterprises (often 50% or more lower). Finally, the wage difference between grades was quite small, usually less than 10%. The General Manager stated that these

issues would be handled in Radio Firm first, as it was a 'joint venture' with much more autonomy. However, he emphasised that these changes had to be gradual so as to avoid disputes between Radio Firm and Radio Plant.

RadioCo's low wage scales were not compensated for by its bonuses, which consisted of 35% of an employee's wage package in 1994. Before 1966, bonuses were distributed to the workers who over-fulfilled production quotas, even though the bonus amount was quite small (usually 5 to 10 yuan per month). When the Cultural Revolution started, the bonus system was abolished because it was condemned as part of bourgeois capitalism. Between 1966 and 1978, the incentives offered were mainly in the form of spiritual encouragement, such as the presentation of a model worker certificate or a red flower to a high performer at the factory's general meeting of employees. The bonus system was restored in 1979, and before the mid-1980s bonuses were equally distributed to every employee so long as the employee completed his/her working hours and achieved full attendance. The amount distributed then was only about 5 to 20 yuan per month. In 1984, bonuses became linked to job responsibilities. This link was loose as the responsibilities were only briefly described. If the employees finished their work without serious errors, they would receive the same amount of bonus as other workers. Bonuses soon lost their impact as incentives because of egalitarianism.

From 1990, when the factory assigned workloads to each position, bonuses were tied to the workloads. The link between bonuses and performance, however, was much tighter for production workers, whose workloads were detailed and quantified, than for non-production employees, whose workloads were brief and vague. Workers

commented that they had 'rigid and hard' targets while cadres only had 'flexible and soft' ones. As a result, the factory formulated various bonus rates for different groups of employees - i.e., if the average bonus given to production workers was set at 1, the factory director would receive 1.8 times the workers' average bonus, senior managers 1.7, head of department 1.2, while managerial staff and other non-production employees would receive between 0.7 and 1. Although the use of bonus rates tried to overcome the problems caused by vaguely specified workloads for non-production employees, it did not remove the egalitarianism among employees working in the same occupation irrespective of individual performance.

When RadioCo started to assess performance in 1992 at the department level, bonuses were distributed at two levels. The factory first distributed bonuses to each department according to its performance appraisal results. Then each department would redistribute the bonuses it received to each production line or work team (except for the head of department, whose bonus was paid by the factory, based on his/her individual performance appraisal). As there were no formal individual-based performance criteria or appraisal processes, people working in the same team or production line usually received the same bonus. Employees described this two-level bonus distribution system as a change from 'eating from a big rice pot' (i.e., equally distributed bonuses at the factory level) to 'eating from a small rice pot' (equally distributed bonuses at the team level). In other words, egalitarianism still existed in bonus distribution.

In order to reduce egalitarianism, RadioCo planned to introduce 'unpredicted bonuses' that would be deposited directly to the employees' bank account rather than being paid

in cash. Unpredicted bonuses meant that there would be no fixed bonus rates or equally distributed bonuses within small work groups. Bonuses would be closely linked to each person's performance based on individual performance appraisals, and big gaps could appear between bonuses received by high and low performers. To avoid jealousy and unnecessary conflicts, the bonus and wages would be credited directly to each employee's bank account. In 1994, with wages and bonuses still being paid in cash and everyone signing a big payroll sheet after receiving the payment, there was no confidentiality in the payroll system. The factory was going to use the direct payment method in 1995 for its managers first, and then extend this practice to all the employees.

Being a COE, RadioCo offered welfare benefits to employees that were far less substantial than those offered by SOEs. For example, the factory had never offered accommodation to its employees until 1992 when it had to attract university graduates from other cities. This was because the wives of state enterprise employees who initially developed the factory had not had accommodation problems. Since then the factory had only employed people living locally. In 1994, the only accommodation offered was a dormitory where three graduates had to share one room. As the factory was making profits and expanding, it was planning to purchase some flats to improve the graduates' living situation and to attract and maintain other key employees. However, accommodation was supplied on the condition that the employees work for the factory, and it would be withdrawn on resignation. Furthermore, RadioCo did not have its own kindergarten and school or hairdresser and bathhouse as SOEs did, hence its employees had to pay normal rather than subsidised prices for these services.

RadioCo had over 200 retired employees, who were not on its payroll as the factory joined the social security system in 1987 when the system was in its experimental stage. Each year the factory paid an amount equal to 26% of its total payroll to the system as pension funds while individuals paid 3% of their wages. RadioCo also contributed 150,000 yuan per year as medical funds to this system, which would then pay the pensions and medical fees of its retirees. RadioCo had few welfare benefits, which made it easier for its retired employees to accept the social security system. This, in turn, helped RadioCo to focus on its business operations rather than having the extra burden of running a small society.

#### **7.5.5 Training and development**

Training, especially education, had been emphasised by RadioCo since 1980 when the Department of Labour and Personnel was re-titled the Department of Labour, Personnel and Education. Historically, the education level of RadioCo's employees, on average, was quite low. Some of them had only completed education up to year 6 while a few were even illiterate. Before 1976, the factory did not have any graduates from either technical schools or universities. Employees allocated by the government or inheriting their parents' jobs in the 1970s and the early 1980s often held an education level of up to year 9 or 12, although their true education level was lower because of the interruption by the ten-year Cultural Revolution. Despite such deficiency in education, the education or training programs organised by the factory before 1980 were very politically oriented, except for the apprenticeship training for new workers. Occasionally, when required by its governing authority, the factory offered training programs such as the operation of total quality control systems or sent employees to programs organised by the local government or other organisations.



The situation started to improve in 1980 when RadioCo organised comprehensive education programs for its young employees. The programs offered basic high school subjects taught, such as Chinese and mathematics. All subjects were offered outside working hours. The employees were required to pass examinations set by the education department of the local government to ascertain that they had really reached year 9 or year 12 level (the student would receive a junior middle school certificate if completing year 9 education and a high school certificate if completing year 12). All the young employees had to pass a minimum level of year 9. By the mid-1980s, more than 400 employees were re-educated and obtained new certificates in this way.

The factory also encouraged employees to take part-time tertiary study in their speciality area to facilitate career development. Before employees sat for the tertiary entrance exams, they had to obtain permission from the Personnel Department. Only when the selected speciality matched the employee's current work or would be suitable for the factory's production needs would the Personnel Department give its permission. Subsequently, if the applicants passed the entrance exam and enrolled, they could enjoy some flexibility in their working hours during their exam period and their tuition fees were reimbursed if they passed all subjects. Some employees obtained tertiary certificates by passing all the exams offered by the State Committee of Adult Tertiary Self-Education. The Personnel Department would award such employees 300 yuan per person once they passed all exams. The policy of the factory paying tuition fees or presenting awards was revised in 1994 after the position-and-skill wage system was adopted. Employees who completed tertiary education would not receive reimbursement for tuition fees nor monetary awards, but their newly obtained qualification was acknowledged and their skill wage would increase

accordingly. From the early 1980s until 1994, 30 employees from the factory completed tertiary education through part-time study or self-education.

Apart from emphasising education and higher qualifications, the factory also offered some training opportunities. Apprenticeships for new workers consisted of on-the-job training since the 1980s, as was the situation in SOEs. This type of training focused on work skills to allow the new employee to work with minimal supervision within 2 to 3 years. For managerial staff, RadioCo organised a one-week off-the-job training program for all supervisors and line managers as required by the industrial bureau, which supplied the training materials. The Personnel Department worked together with the trade union to organise the program and issued certificates upon completion. All the relevant staff attended the program, as the factory required this certificate as one of the criteria for promotion. RadioCo also sent its employees, such as accountants and quality inspectors, to training programs conducted by external organisations as required by its own business and production needs. The training for engineers or senior managers was always organised by the training department of the local electronic industrial bureau or local government.

RadioCo's efforts on training decreased in the 1990s from the 1980s because it could select graduates appropriate to its own needs from 1992 onwards. Employing new university graduates was free of charge in 1992, and in 1993 recruits were still free to COEs or cost less (around 1,000 yuan) than at SOEs and FIEs. These lower costs could reflect the fact that COEs were usually much less attractive than SOEs and FIEs, given their meagre welfare benefits and lower wage scales. Although RadioCo suffered from overstaffing, it had still taken on about twenty graduates each year since

1992 and planned to continue doing so. Any new production workers had to have completed technical school or year 12. The personnel manager believed that employing these new graduates could meet production development needs much more quickly than relying on training employees, and it was also more cost-effective. The personnel manager admitted that the factory was not constrained by a fixed budget for training as were SOEs (usually 1.5% of the total payroll). But this did not mean that the factory would spend more money on training programs – in fact the opposite was true. This was another reason to focus on recruiting more qualified employees.

RadioCo had a one-day induction program for its newly recruited graduates. During this program, the director of the factory would talk about the factory's history, its development and its future prospects, while the personnel manager would introduce relevant rules and regulations and its personnel administration. In addition, the safety and security manager would highlight relevant safety rules and the manager of general affairs would provide information on accommodation, transportation and other miscellaneous issues relevant to daily living and working in the factory. After this orientation, university graduates would be assigned to different workshops to become familiarised with the factory's products and production procedures. They would rotate through a variety of job positions for six months before being assigned to departments of technology, quality control, or product development. Some stayed in the Department of Production and acquired the responsibility of resolving technical issues. Technical school graduates were assigned to workshops after the orientation. Usually their rotation was confined to one production line or one workshop.

Before the reforms, training offered in RadioCo was based on plans and instructions determined by its governing authority. Such direction has become less common, although not extinct, since the reform. For example, the factory still had to conduct some political training programs for its cadres to meet local government requirements. In 1991, the factory had to divide its employees into 10 groups, with each group spending 10 days off work to study the newly published State Constitution and relevant laws. Although RadioCo's managers were very concerned about the time spent on such training and the resulting interruption to production, they still had to obey the government's instructions. However, they felt relieved that such instructions were becoming less frequent. In 1994, the factory developed two principles of training. One principle was to take training courses outside work time. The other principle was to select training courses that matched the current job. Therefore, employees had to take training courses in their spare time. Some graduates were promoted to line manager or even department manager's positions with little training in the managerial field. They expressed concern about improving their managerial skills, but were encouraged to acquire the skills through their work.

#### **7.5.6 Labour relations**

RadioCo was unionised like SOEs, and everyone was a union member regardless of whether one worked in Radio Firm or Radio Plant. However, some employees were not aware that they were union members, which reflected the weak influence of the union in the factory. RadioCo established its Workers' Representative Congress (hereafter called the Congress) in 1982 which held general meetings once or twice a year to discuss the factory director's working report, new rules or regulations proposed, annual budget plans and the implementation of resolutions passed at the

previous meeting. The union representatives also passed on employees' suggestions for improving production to the factory director at the Congress meetings.

The principal role of the trade union, as explained by the chairman of RadioCo's trade union, was to assist managers in their work and to look after employees. The first role required listening to employees' grievances and assisting managers to solve the problems, while the second often included the organisation of recreational activities and distribution of welfare items. For example, the union usually purchased film tickets and non-staple foods such as fish or meat for employees on public holidays. If a worker was in hospital, the union would send visitors along with some nutritious food or tonic herbal medicine. During every Chinese New Year, the chairman and other members of the union would give gifts during their visit to retired workers.

Although the chairman of the union in RadioCo held the position of a deputy director, he admitted that the major task of the union was to deal with employees' welfare issues. He believed that only when employees felt they were looked after by the factory would they be willing to work hard in harmony. What he said might be true as RadioCo had not experienced any industrial disputes or suffered loss of working time due to such conflicts up to 1994.

## **7.6 Discussion and Summary**

This chapter has described the HRM function in a COE, RadioCo, with respect to six major HR activities that are summarised in Table 7-2.

**Table 7-2 HR activities at RadioCo**

HR activities	Purposes	Features	Issues
HR planning	<ul style="list-style-type: none"> <li>- to have the right people for product development</li> <li>- to relocate redundant employees</li> </ul>	<ul style="list-style-type: none"> <li>- focus on qualifications of people since the reform</li> <li>- annually planned based on workloads of a job</li> <li>- restricted by the state policies</li> </ul>	<ul style="list-style-type: none"> <li>- lack of measurement in job descriptions to determine workloads</li> <li>- short-term oriented</li> </ul>
Recruitment & selection	<ul style="list-style-type: none"> <li>- to have university and technical school graduates</li> </ul>	<ul style="list-style-type: none"> <li>- selection criteria were based on applicant's speciality and academic records</li> <li>- informal talks with candidates as a major selection method</li> </ul>	<ul style="list-style-type: none"> <li>- lack of job descriptions for many positions</li> <li>- heavy reliance on one's qualifications and recruiter's personal impression</li> <li>- no standardised selection methods and procedure</li> </ul>
Performance appraisal	<ul style="list-style-type: none"> <li>- for bonus distribution</li> <li>- for cadres' promotion</li> </ul>	<ul style="list-style-type: none"> <li>- conducted formally at department level and for some managers only</li> <li>- individual assessment based mainly on attendance and fulfilment of workloads</li> <li>- criteria were more results-oriented for production workers</li> </ul>	<ul style="list-style-type: none"> <li>- lack of detailed performance criteria, esp. for non-production employees</li> <li>- no formal individual assessment for the majority of employees</li> <li>- not used for identifying training needs</li> </ul>
Compensation & welfare	<ul style="list-style-type: none"> <li>- to link wages to the responsibilities assumed and skills obtained</li> <li>- to relate bonuses to performance</li> <li>- to attract and maintain employees</li> </ul>	<ul style="list-style-type: none"> <li>- 65 % wages and 35 % bonuses</li> <li>- job responsibilities were not specified for non-production workers while skills were based on qualifications only</li> <li>- equally distributed bonuses within each department</li> <li>- started to offer accommodation to young graduates</li> </ul>	<ul style="list-style-type: none"> <li>- no substantial gap between wage grades</li> <li>- loss of incentives because of 'eating from small rice pot' (equally distributed bonuses within each department)</li> </ul>
Training & development	<ul style="list-style-type: none"> <li>- to raise employees' education level</li> <li>- to improve work skills</li> </ul>	<ul style="list-style-type: none"> <li>- mainly on-the-job training</li> <li>- passively organised</li> <li>- encourage further self-education and part-time study in one's own working area</li> </ul>	<ul style="list-style-type: none"> <li>- no systematic training</li> <li>- lack of management training for new managers</li> <li>- reduced training efforts because of the employment of graduates</li> </ul>
Labour relations	<ul style="list-style-type: none"> <li>- liaison between management and employees</li> </ul>	<ul style="list-style-type: none"> <li>- unionised</li> <li>- focus on employees' welfare</li> <li>- assistant to management</li> </ul>	<ul style="list-style-type: none"> <li>- to what extent does the trade union represent workers' interests in terms of their rights and power?</li> </ul>

In this chapter, pre-reform HR activities were briefly examined while those conducted recently during the reform era were elaborated in more detail. This case study indicates that the role of the HRM function started to emerge in RadioCo's business operations during the transition to the new economic system. Prior to the reform, RadioCo was characterised by the direct control of the local government, low education levels of the employees, and primitive technology and equipment employed in its production.

Table 7-2 indicates that the labour and personnel administration at RadioCo before the economic reform, to a large extent, was either controlled or directed by the government. This was demonstrated by the assignment of the factory director, the allocation of workers and the standardisation of wage scales. During the reform era, RadioCo was granted more autonomy and was pushed to compete in the market as it received much less protection and fewer soft budget benefits from the state than did SOEs. In order to compete and achieve its business objectives, RadioCo began to practice more sophisticated HR activities, including conducting selection and offering incentives, in order to obtain quality employees.

The main features of RadioCo's HR activities observed during this study were: 1) an emphasis on the qualifications of employees; 2) the linking of performance to the achievement of business objectives; and 3) an attempt to link the compensation employees received to their contribution to the organisation. The first feature was reflected in RadioCo's education programs, human resource planning and selection, and even its welfare package. The factory provided education programs to all its young workers to raise their education level and encouraged current employees to take part-time study or self-education to obtain higher degrees. The qualifications of employees

became the key issue in the factory's human resource planning, while in the selection process, the major criteria based on qualifications and academic records. Although qualifications should not be the only criterion used to judge the quality of people, the focus on qualifications at least highlighted the importance of education. RadioCo's emphasis on qualifications resulted in an increase in employees with tertiary education from zero in 1976 to over 90 in 1993.

Most of the graduates made positive contributions to the technology or product development of the factory. For example, one university graduate recruited in 1992 became the Head of the Department of R&D, and developed new products with his subordinates. The Director noted that these new products had facilitated an increase in the factory's market share. In order to attract and retain qualified employees, RadioCo even supplied them with accommodation. Senior managers believed that this welfare item was an expensive but worthwhile investment, useful in attracting competent people who would be of benefit to the factory. In addition, with the contract system and the condition that employees could retain their accommodation only while they worked for the factory, this welfare benefit was unlikely to cause further complications, in contrast to SOEs where employees could keep their accommodation regardless of their performance and sometimes even after they resigned.

The second feature - linking performance to the achievement of business objectives - was demonstrated in the performance appraisal scheme put in place for mid-level and senior managers as well as for departments. Although the government required the factory to assess its managers in four areas (moral practice, competence, attitudes and results), 60% of the weight fell on performance results because it had quantified



objectives. This indicated a shift from politically oriented to results-oriented assessment and followed the practice advocated by Deng Xiaoping's motto – 'to seek truth after the fact'. This feature was also evident in the assessment at department level, which placed 80% of the weight on its achievement of objectives in both quantity and quality. Linking each department's performance with the achievement of objectives has led to the abolishment of the factory-wide equal distribution of bonuses. However, this link had not been extended to the individual performance of the majority of employees, especially non-production workers.

Finally, RadioCo's continuous attempt to relate an individual's compensation to his/her contribution was another feature of its HR practices. The factory tried to offer employees incentives by first distributing bonuses equally within the factory, then within each department, and now planned to introduce 'unpredicted' bonuses that would be linked to individual performance rather than being based on fixed bonus rates. Although the bonus had not proved to be successful in linking compensation to performance - because performance criteria were brief and vague for non-production employees, and few employees were assessed on individual performance – the factory did have plans to formulate performance criteria for each job position. The implementation of the 'position-and-skill' wage system improved the connection between job responsibilities and wages, even though the new system was still constrained by government control and by aspects of historical development (i.e., a top ceiling on wages, the low wage scales and the small difference between grades). Despite the defects in its compensation system, RadioCo's endeavour to pursue performance-related pay marked a break from the compensation system existing prior

to the reform, and also illustrated the practical difficulties and challenges in linking compensation to employee contribution.

Although HR activities existed in RadioCo, they were quite different from those defined in the West. For example, the lack of job analysis led to vaguely described job responsibilities, which in turn affected the establishment of full workloads and performance criteria, as well as human resource planning. Furthermore, its human resource plans were made only one year in advance. The factory could conduct its own recruitment and selection, but had no formal selection procedure and method. Performance appraisals were only used for bonus distribution rather than training or communication purposes as expected in the West. Compensation was partly related to an employee's skill and responsibility, yet 35% of it (bonuses) was often distributed equally to each worker in the department. Furthermore, training was often passively organised to meet the requirements of the governing authority rather than actively offered as part of a systematic program. RadioCo did not have a fixed budget for training and depended more heavily on recruiting new graduates than on training current employees. Finally, the trade union performed a totally different task - that of a welfare caretaker - compared with its counterpart in the West. These differences could be attributed to the very short history of HR practices within the factory (selection practice was introduced in 1993 as was the position-and-skill wage system), and more significantly, to the restriction imposed on its HR practices by its ownership type.

Being a collective enterprise, RadioCo had no rights to claim the profits it made, as the tax was still levied at a negotiated rate in 1994. RadioCo was also subject to some local government controls over its HR activities even in the reform era, although they

were much less stringent than those during Mao's regime. Now it had total autonomy to select its own employees without being limited by quotas on cadres and technical personnel as was the situation in the state enterprise, TeleCo (see Chapter 6). However, RadioCo could not make all the decisions – rights to retrench redundant employees and to increase the total payroll amount were retained by the local government. Furthermore, the director of the factory was still appointed or transferred at the government's will, and this power represented the key control of the government over the factory and its HR activities. If the director failed to obey the government's instructions, he/she could be easily removed by the government. The ownership type did indeed influence HR practices.

With the acceleration of reforms, RadioCo had intended to further improve its HR activities, such as completing detailed job descriptions for each position so as to conduct individual performance appraisals and to link bonuses to individual performance. The factory was also planning to further reform its wage system by introducing 'unpredicted' bonuses along with direct payment to allow the pay differentiation. It has also experimented with, and expected to continue trials in its joint venture division (Radio Firm) other HR activities such as contract-based employment, merit-based promotion and performance-based compensation. These features could be part of the future path of RadioCo's HRM development. However, the senior managers of RadioCo stated that improvement in their HR practices also depended heavily on the alleviation of government restrictions and establishment of a nation-wide social security system.

## **CHAPTER 8**

### **CASE STUDY 3: HR PRACTICES IN A PRIVATE-OWNED ENTERPRISE**

#### **8.1 Chapter Objectives**

The third case study presented in this chapter was conducted at ElectroCo, a private-owned enterprise (POE), or more precisely, a partnership POE but registered as both a collective-owned and foreign-invested enterprise. The objectives of this case study are identical to the previous two, that is, 1) to describe current HR activities at ElectroCo; 2) to explore the impact of ownership types on HR practices; and 3) to describe and analyse probable paths of HRM development in the future.

Given the similar objectives, this case study adopts a framework identical to that of the previous two chapters. The second section of this chapter presents an overview of POEs in China, with a focus on the resurrection and upsurge of POEs following the post-Mao's reforms, their major features and subsequent impact on HR practices. The third section describes the data collection process for this study, and presents background information on ElectroCo and its current HR practices. The chapter concludes with a discussion of the findings from this case study with respect to the research questions.

#### **8.2 Private-owned Enterprises (POEs) in China**

Private-owned enterprises (POEs) in China did not survive beyond 1956 due to the hastily and forcefully implemented socialist transformation (see Section 2.2). Two

major driving forces behind the transformation were the adoption of the heavy-industry-oriented development strategy and Mao's radical ideology. The transformation of ownership from private to public enabled the state "to collect every bit of resources to form a huge accumulation of capital" so as to concentrate on the development of heavy and military industries (Gao & Chi, 1996: 21; also see Lin et al, 1996). The transformation was facilitated by the belief that the private sector of economy was "a capitalistic mechanism of class-struggle to exploit the masses" and should thus be eliminated (Kraus, 1991:13). As a result, by the end of 1956, 99% of 88,000 POEs nation-wide were transferred to the public sector (*People's Daily - Overseas Edition*, April 9, 1999: 6). Furthermore, "a distorted cultural attitude" formed in the Chinese society, with people believing that state enterprises were respectable while non-state ones were disreputable, and this misconception was not addressed until the start of reforms in the late 1970s (Gao & Chi, 1996: 5).

Private economy in the urban area was initially accepted only in the form of individual industrial or commercial households (*getihu*) in 1979. They were expected to fill in the gaps left by the public sector in the economy, such as in the service industry and in employment (Young, 1991; Yuan, 1993). In July 1981, the government promulgated 'Policy Provisions of the State Council on Urban Non-Agricultural Individual Economy'. This document recognised the existence of individual business (*getihu*) "that does not exploit the labour of others" and specified that "employing one or two persons as helpers and two or three persons as apprentices was acceptable", but apprentices should not exceed five (Yabuki, 1995: 59). Therefore, *getihu* was officially defined as "individually owned businesses employing up to eight people, including the owner but often

discounting family members” (Young, 1995: 5). The flourishing of *getihu* between 1981 and 1997 is presented in Table 8-1.

**Table 8-1 Recorded private businesses, 1981-1993 (year-end figures)**

Year	<i>getihu</i>	POEs
1981	1,827,752	
1982	2,614,006	
1983	5,901,032	
1984	9,329,464	
1985	11,712,560	
1986	12,111,560	
1987	13,725,746	
1988	14,526,931	
1989	12,471,937	90,581
1990	13,281,974	98,141
1991	14,145,000	108,000
1992	15,339,200	139,600
1993	15,483,000	184,000
1997	28,500,000*	960,726**

Sources: Young, 1995: 6;

\* Chen & Shi, 1998: 3;

\*\* *Beijing Review*, March 1, 1999: 4.

The resurrection of individual businesses provided job opportunities for young people returning to urban areas from the countryside (as a result of the Cultural Revolution) and new school leavers, and helped to improve the service industry as well as the distribution of consumer goods (Shirk, 1993; Wang, 1994; Young, 1995). With rapid growth of individual business in the early 1980s as indicated in Table 8-1, many *getihu* (individual households) soon overstepped the state-imposed limits on the number of employees. According to Yuan (1993: 30), in early 1986 there were over 40,000 *getihu* that employed more than 8 employees and in 1987 an average of 16 people were employed by each *getihu*. The fast expansion of *getihu* and the vigorous development of

individual businesses encountered ideological opposition from leftist cadres and workers, including criticism of the wide income disparities created among employers and employees (Riskin, 1995), the exploitation of workers and the restoration of capitalism (Chen & Shi, 1998). However, the central government adopted a wait-and-see stance, neither encouraging nor closing down any *getihu* that had employed more than 8 workers (Wang, 1994). This 'silence' was interpreted as a message of support for individual businesses (Young, 1995), which not only led to further growth of individual businesses, but also laid a foundation for the emergence of private-owned enterprises. Table 8-1 indicates that the number of *getihu* increased over 7.5 times between 1981 and 1987 (1.827 million to 13.725 million).

A POE (*siying qiye*) is “an individually owned enterprise with more than eight employees” (Riskin, 1995: 335). POEs were mainly engaged in the manufacturing industry and their owners were usually the managers (Wang, 1994). POEs were officially recognised and given legal status alongside individual businesses when the 1982 Constitution of the PRC was modified in April 1988. The constitutional amendments specify that “the state approves the existence and development of private enterprise within the sphere set out in laws and regulations. The private economy is a supplement to the socialist economic system of public ownership. The state shall protect the legal rights and profits of the private economy, and will carry out guidance, supervision, and management of the private economy” (Wang, 1994: 133). In July 1988 the state promulgated the ‘Provisional Regulations on Private Enterprises in the People’s Republic of China’, and related administrative regulations were issued in February 1989. The new regulations applied to private enterprises employing more than eight people. Private enterprises were divided into three categories based on the number

of investors: sole proprietor enterprise (a single investor), partnership (two or more), and limited liability company (two or more but fewer than thirty investors) (Yabuki, 1995: 59-60). The regulations specified a "ceiling" on the monthly salary for POEs' owner/managers, i.e., their salary should not exceed four times that of the average wage of the workers (Gao & Chi, 1996: 193). The regulations also addressed issues of employment and working conditions within POEs, including the stipulations that the POE's labour contract should be filed through the local labour bureau and that any labour disputes in POEs be handled as in state enterprises (Young, 1995:111).

As indicated in Table 8-1, private businesses were stymied and declined in 1989 by nearly 15% (e.g., there were 2 million *getihu* fewer in 1989 than in 1988), because they fell into "political disfavour" for a time after the Tiananmen Square incident (Boisot & Child, 1996: 45). With the purge of ex-Premier Zhao Ziyang and his liberal supporters of reform, private businesses were accused of conducting merciless capitalist competition and exploitation, creating social chaos because of unequal distribution of income, and becoming the main source of spiritual pollution (Chan & Unger, 1990; Kraus, 1991). The state also launched a tax inspection and collection campaign, targeting the private sector in 1989, to tighten its control over *getihu* and POEs (see Young, 1995: 139-42). In spite of POEs having been granted legitimacy by the law and constitutions, owners of private business felt vulnerable due to social prejudice and ideological bias (Wong, 1996; Yuan, 1993). For example, the debate on whether private economy belonged to capitalism or socialism (*xing she haishi xing zi*) was still a hot topic in the late 1980s and early 1990s (Chen & Shi, 1998). People engaged in private businesses were greatly concerned about being categorised as capitalists and having their assets confiscated (Yuan, 1993: 5). This insecurity



encouraged private business owners to establish personal relationships with government officials and to falsely register their POEs under the name of other types of ownership (a phenomenon called 'red hat', which will be discussed later) (e.g., Boisot & Child, 1996; Pearson, 1997; Young, 1995).

Recovery of private business occurred after Deng Xiaoping's southern tour of China in early 1992, when he stated that only three criteria, irrespective of the type of ownership, should be used to determine whether a business should be encouraged or not. The three criteria (abbreviated as *sange youliyu*) were "whether it facilitates the development of socialist productivity, whether it favours the strengthening of the socialist country's comprehensive strength, and whether it contributes to the improvement of the people's living standards" (Gao & Chi, 1996: 40). In the CPC's 14<sup>th</sup> and 15<sup>th</sup> National Congresses, the Party further clarified the position and importance of private business. For example, the Party General Secretary Jiang Zemin declared in his speech at the Party's 15<sup>th</sup> National Congress that,

"The non-public sector is an important component part of China's socialist market economy. We should continue to encourage and guide the non-public sector comprising self-employed and private business to facilitate its sound development. This is of great importance to satisfy the diverse needs of the people and promoting the development of the national economy" (*Beijing Review*, October 6, 1997: Documents, p.19).

While Deng's pragmatism reflected in his three criteria initiated a new cycle of frenzied activities in private business, the changed attitude of the Party towards private businesses from 'a supplementary role' to 'an important component part' further encouraged the development of POEs (Chen & Shi, 1998: 2-7; Young, 1995: 150-3). More importantly, this change was officially adopted by the 9<sup>th</sup> National People's Congress in March 1999 and written into the constitutional amendments (*People's*

*Daily - Overseas Edition*, April 9, 1999). Since 1992 there has been an extraordinary growth in the number of POEs. Table 8-1 shows that the number of POEs in 1997 was nearly six fold of the number in 1992. Furthermore, the number of people employed by POEs increased from 1.64 million in 1989 to 13.49 million in 1997 (*Beijing Review*, March 1, 1999: 4).

With the rapid growth of POEs in the industrial sector (e.g., the percentage of their shares of gross value of national industrial output increased from 0.02 in 1980 to 11.51 in 1994, see Table 3-1 in Chapter 3), their three distinct features can be observed (e.g., Chen & Shi, 1998; Gao & Chi, 1996; Yuan, 1993). The first was their short-term orientation or “mentality” (Wong, 1996:145). For example, Tan and Li (1996: 243) have noted that POEs usually “invest to gain rapid returns on their capital, emphasise liquidity, and spend their returns on their personal consumption rather than investing in fixed capital”. The major reason for private enterprises’ myopic behaviour was their persistent fears of policy changes (Murphy, 1996; Sabin, 1994). Lack of confidence in government policies caused private business people to “worry about the safety of their property and also about their future” (Gao & Chi, 1996: 118). Another reason could be the fact that China is “a social and political environment in which ‘private’ is still regarded with suspicion or hostility” (White, Howell & Shang, 1996: 243). Furthermore, existing uncertainties during the period of economic transition, including the lack of clearly defined and consistently enforced property rights as well as explicit and codified information, have also contributed to this feature (Tan & Li, 1996: 243).

The second feature of POEs was the critical role played by kinship and nepotism in their labour relations. POEs usually employed their owners’ family members, relatives or close

friends as managers or key employees rather than recruiting and selecting openly from the free labour market. POE owners often exhibited “patriarchal behaviour” in their management style where the owners made all the decisions without formal rules and regulations (Gao & Chi, 1996: 118-20). The heavy reliance on kinship or connections to establish trust between employer and employees and to build up a circle of close relations actually reflects a legacy of the Chinese feudal society and the values of Confucianism that was severely criticised during Mao’s regime (Redding, 1993; Wong, 1996). This feature was also observed by Redding when he uses “patrimonial” to describe the firms that are owned and controlled by ethnic Chinese businesspeople. According to Redding,

“Patrimonial is the only word which captures adequately the themes of paternalism, hierarchy, responsibility, mutual obligation, family atmosphere, personalism and protection. Out of it (patrimonialism) flow three related themes which are in some sense expressions of it, namely: the idea that power cannot really exist unless it is connected to ownership; a distinct style of benevolently autocratic leadership; and personalistic as opposed to neutral relations” (1993: 155).

However, some researchers (Brosseau, 1995; Chen & Shi, 1998) have argued that nepotism may become a hindrance to the development of private business. They believe that employers within POEs will soon have to break the practice of recruiting their relations (*renren weiqin*) and seek competent employees (*renren weixian*), as competition becomes more intense for POEs.

The prevalence of the ‘red hat’ phenomenon among POEs was the third feature that has received extensive attention (e.g., Kraus, 1991; Murphy, 1996; Pearson, 1997; Sabin, 1994; Young, 1995). The red hat phenomenon refers to POEs disguised as collective-owned enterprises (COEs) by false registration.<sup>17</sup> Apart from red hats, some POEs might

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<sup>17</sup> As Mao Zedong advocated ‘red and expert’, red is often related to political reliability, and ‘to wear a red hat’ in this context means to have political protection.

have 'foreign hats' by registering their enterprises as foreign-invested enterprises such as foreign joint ventures (Gao & Chi, 1996: 119). In exchange for permission to have such false registration, POEs pay a state agency administration fees which were usually 1-2% of output value or 5-10% of turnover (Young, 1991: 19). In return, POEs could "receive protection from a benefactor in the state against public prejudice and bureaucratic harassment" (Murphy, 1996: 15).

The main incentive for POEs to have red or foreign hats rather than private identities was to overcome their disadvantages "with regard to financing, issuance of operating permits, pricing and taxation" (Sabin, 1994: 952), as well as access to various supplies (Nee, 1992). This was especially the case in the 1980s and early 1990s when central planning and the dual pricing system were still in operation together with negotiation-based tax rates. All of these practices favoured the public sector or FOEs. For example, Yuan (1993: 54 & 81-4) has noted that government policy granted newly registered COEs exemption from taxes for up to three years, which was not granted to POEs. Similarly, FOEs enjoyed 2 tax-free years and then 3 years of 50% reduction in their payable tax if they held contracts with terms of 10 years or more. In contrast, POEs had to apply for tax reduction if they were in extreme financial difficulty and even then the reduction might not be granted. It was estimated that by the end of 1992 nearly 50% of POEs were registered as collectives, i.e., nearly 139,000 COEs were *de facto* POEs (there were 139,600 registered POEs, see Table 8-1) (Chen & Shi, 1998: 5). The red hat phenomenon revealed that the laws and regulations designed to protect and manage POEs had not been well conceived, and that social and political discrimination against POEs had not really disappeared from the socialist market economy.

These major features have had a profound impact on POEs' HR practices. First, as Yuan (1993) has observed, POEs' profit-maximising and short-term strategy often led them to neglect employee training and career development. The survey conducted by the researcher in 1994 and 1995 revealed that POEs offered fewer training programs for employees than enterprises with other types of ownership (see Chapter 10). Second, POEs' heavy reliance on kinship and connections resulted in non-standardised management practices. This included informal labour contracts, arbitrary wage and welfare treatment, and inadequate labour protection (Gao & Chi, 1996; Wang, 1994). Key management positions were kept mainly within the circle of close relations of the POEs' owners, a practice which could obstruct open recruitment and selection of more competent people from the outside free labour market (Chen & Shi, 1998). While a small group of employees with a close relationship with POE owners were well treated, the majority of workers in both large and small POEs who often came from rural areas (Sabin, 1994), were paid less but worked longer hours in the 'sweatshops' under appalling conditions (O'Leary, 1994; Chan, 1996). Although workers in the private sector have not been unionised (White et al., 1996), poor management of employees could lead to industrial disputes, which would accelerate the establishment of trade unions within POEs. It would also compel the unions in private businesses to be more active in working for the welfare of the workers (Kraus, 1991).

A third impact on HR practices in POEs is their insecure political and social status, as indicated by the red hat phenomenon. This situation could weaken their ability to attract qualified employees - this was particularly true in the 1980s and early 1990s when POEs were still at their initial stage of development. At that time, university graduates preferred the public sector to the private one, and tended to select state rather than private

enterprises (Kraus, 1991). Although POEs have enjoyed a better reputation since their rapid growth after the early 1990s, POEs still faced high departure rates of qualified personnel because of career development and compensation issues. For example, in technology-intense POEs in Beijing, the turnover rate in the mid-1990s was 20-30% (Gao and Chi, 1996: 126). Finally, in contrast to other ownership types, POE's compensation practices, especially the bonus distribution, were linked more to individual performance and enterprise profitability than to group performance or employee attendance, which is supported by the survey results to be discussed in Chapter 10.

POEs all operate under hard budget constraints and have to be self-reliant, thus they are often more efficient than state and collective enterprises (Chen & Shi, 1998; Wang, 1994). According to Yuan (1993: 128), an investigation was conducted in Wenzhou (a city well known for its high number of private businesses) to identify the ratio of input to output in SOEs and POEs in 1990. The ratio in SOEs was 1:1.19, in POEs 1:4.38. Have HR practices in POEs made any contribution to their efficiency? The following case study conducted in ElectroCo aims to illustrate POEs' HR practices in detail.

### **8.3 Data Collection Methods**

In this case study, similar data collection methods, i.e., documentation, interviewing and direct observation, were used as in the previous two case studies. However, as ElectroCo only supplied limited written information (e.g., its prospectus and product specification), the researcher spent more time on interviews and direct observation during the one-week field study than for the other case studies. This included interviewing people at different levels, visiting each department and production lines,

participating in the weekly production meeting, and talking freely with workers and staff.

The interviews were individually conducted on the factory's premises, with an average duration of about one and half-hour. Fifteen people were interviewed as indicated in Table 8-2.

**Table 8-2 Interviewees – ElectroCo case study**

<ul style="list-style-type: none"><li>• Vice Chairman of the Board of Directors/General Manager (GM) (2 interviews)</li><li>• Deputy General Manager appointed by ZC Company (public relations &amp; administration)</li><li>• Deputy General Manager (production) (GM's son)</li><li>• Deputy General Manager (technology)</li><li>• Head of General Manger's Office (also called the Personnel Manager as she was also in charge of labour &amp; personnel administration) (3 interviews)</li><li>• Head of Department of Marketing (GM's daughter)</li><li>• Cash manager of the Department of Accounting &amp; Finance (GM's wife) (2 interviews)</li><li>• Head of Department (R &amp; D)</li><li>• Manager (quality control)</li><li>• Team leader – project engineering</li><li>• Supervisors (2, interviewed individually)</li><li>• Production workers (3, interviewed individually)</li></ul>
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As ElectroCo was registered as a collective-owned and foreign-invested enterprise, it had three managers from the investors on its Board. Two were from ZC Company (Chairman and Vice Chairman/Financial Controller) and one from a Hong Kong company. Only the Deputy General Manager handling public relations and administration was sent by ZC Company, and he was interviewed to gain insight into the investors' viewpoint. The day-to-day HR practices were the responsibility of the Head of General Manager's Office (called the Personnel Manager hereafter), who was also one of the two people working closely with the owner of ElectroCo in setting up

the enterprise. She was interviewed three times to obtain a detailed history of the enterprise as well as its HR practices. The final draft of this case study was checked and commented on by the General Manager, the Deputy General Manager from ZC Company and the Personnel Manager.

#### **8.4 Case Enterprise – ElectroCo**

ElectroCo was selected for this case study because of its similarities with the other three case enterprises, such as its location in a well-industrialised city, the industry it was in, and its relatively large size among private enterprises. Access to its owner was also critical, because owners of private businesses were generally very reluctant to release any information on their conduct because of their vulnerability to social prejudice, ideological bias and policy changes, which was still prevalent in the mid-1990s. This section focuses on the background of ElectroCo, highlighting the context for their current HR practices.

##### **8.4.1 Enterprise history and ownership**

The enterprise history of ElectroCo began with its founder, owner and General Manager (called Mr. GM hereafter). Before establishing ElectroCo, Mr. GM was a senior engineer in a large state-owned electronic industry research institute. The institute used to be fully funded by the central government under the planned system. However, funding was gradually reduced after the economic reform began, and the institute was urged to compete in the market for its survival. Hence the institute set up a company called NGT in the mid-1980s as a strategic business unit. NGT specialised in telecommunications systems. It designed, manufactured and sold its products



directly to the market. NGT quickly started to earn profits because of its strengths in product design, technology development and the new niche market it was in.

Mr. GM was one of the key engineers at NGT and designed some new products based on his research of market needs. However, he did not experience adequate job satisfaction within NGT, which was supposed to be a market-oriented company rather than being dominated by pre-reform management style, due to several factors. First, pay and promotion in the company were mainly based on seniority rather than performance. Second, the bonus distribution failed to distinguish between high and low performers and Mr. GM was not rewarded for his technical innovations or design of unique products. Third, the profits earned by NGT were shared by the research institute to provide bonuses to other departments that still relied on government funding. Finally, Mr. GM disapproved of his superior's leadership style that favoured blind obedience from the employees. Given his own technical expertise, understanding of the market demand and an established customer network, Mr. GM decided to abandon the iron-rice bowl at NGT and establish his own enterprise. Two of Mr. GM's subordinates were impressed by his entrepreneurship and capability and decided to follow him.

In late 1992, Mr. GM and his two followers submitted their resignations, but the company only gave approval to the two staff rather than Mr. GM because of his technical expertise. Seeing that Mr. GM was determined to leave, the company made him an offer with two conditions. First, his leave would be treated as secondment rather than resignation, which meant NGT would hold his personal file and allow him to return at any time. Second, Mr. GM would not be paid by NGT but he had to pay

NGT 8,000 yuan per annum (equivalent to one and half times his annual salary at NGT) during his secondment to keep his accommodation supplied by NGT. Although these conditions were deliberate obstacles to prevent him from resigning, he accepted them because it was the only way he could start his own business and not risk the worst-case scenario (no job, no accommodation, no new business).

At the end of December 1992, Mr. GM registered ElectroCo as a privately owned electronic technology enterprise with registered capital of 100,000 yuan (drawn mainly from his own savings, with some lent by close friends). ElectroCo was in the same industry as NGT, i.e., telecommunications systems. After registration, Mr. GM employed the two staff who had resigned from NGT. The three of them started from scratch – they selected the enterprise location, acquired the factory building, purchased production equipment, and recruited employees. ElectroCo was located in a high technology development zone where some preferential benefits were offered, such as exemption from import duties for the equipment imported for production purpose. Mr. GM also persuaded some of his former colleagues at NGT to join ElectroCo by offering them much better compensation packages. After seven months of preparation, ElectroCo started operation in July 1993, with key positions being filled up by the people 'poached' from NGT.

From the first day of its operation, ElectroCo paid particular attention to customers' needs and adopted a flexible operation strategy, customising products whenever necessary. Because of its quality, flexibility and negotiable prices, ElectroCo soon operated at its maximum capacity and at the end of 1993 it made profits of up to 200,000 yuan (the return on investment in the first year was over 100%). Despite

ElectroCo's profitability, Mr. GM had difficulties obtaining a bank loan because private businesses were not trusted and considered 'risky'. Furthermore, he noticed that tax would be lower if ElectroCo was not a POE. Therefore, Mr. GM decided to form an alliance with partners from other sectors in order to obtain financial support to expand his operation and to change the 'private' status of his business.

In late 1993 Mr. GM found two partners for his alliance. One was a subsidiary called ZC Company under a Chinese Investment Corporation (CIC) that boasted powerful connections in China (most of its senior managers were related to VIPs in the central government). CIC was based in Beijing but had subsidiaries in many countries. Its role was to channel funds into technology-related ventures and had attracted many foreign companies as its business partners. ZC Company agreed to form a partnership with ElectroCo with total investment of 3 million yuan (51% of the total equity) and would return all its profits for production expansion of ElectroCo. The other partner was a Hong Kong Import and Export Company, which would be responsible for ElectroCo's imports and exports. The Hong Kong company's investment was in the form of equipment, amounting to 15% of the total equity of ElectroCo. In order for ElectroCo to become a FIE, the Hong Kong company's investment was falsely reported as 25% as required by the Foreign Joint Venture Law (i.e., 10% was invested by Mr. GM but put under the name of the Hong Kong company). With assistance of ZC Company, Mr. GM obtained financial support of a state bank and he invested another 1 million-yuan into ElectroCo, thus achieving 24% of ownership. As the result of this alliance, ElectroCo became a collective-owned and foreign-invested enterprise<sup>18</sup>. The change of ownership gave the enterprise a more competitive edge in terms of reduced tax and

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<sup>18</sup> In mid-1990s enterprises invested by Hong Kong business people were classified as FOEs.

increased financial and other support from the government, such as access to some state-controlled production materials and goods with fixed low prices.

Since 1 January 1994, ElectroCo has officially been a COE and FIE, even though its day-to-day operation is the responsibility solely of Mr. GM because of an agreement reached by the three parties. Both ZC Company and the Hong Kong company lacked the expertise to manage an enterprise like ElectroCo. They were satisfied with ElectroCo's performance in 1993 and had confidence in its potential for development under Mr. GM's management. Although ZC Company had 2 positions on the Board and appointed a Deputy General Manager to honour its 51% ownership, only the Deputy General Manager was actually involved in the daily work of ElectroCo. The Hong Kong company had one member on the Board. All Directors on the Board (except Mr. GM) came to the enterprise only for Board meetings. When this case study was conducted in late 1994, it was estimated that the return on investment could be over 40%. While ZC Company and the Hong Kong company were quite willing to increase their investment in ElectroCo, Mr. GM told the researcher during an interview that he wanted to increase his ownership from the current 24% to over 65% in 1995 because of the high return on investment achieved by ElectroCo, the financial support he had secured from a state bank, and the management team he had formed.

#### **8.4.2 Organisational size and structure**

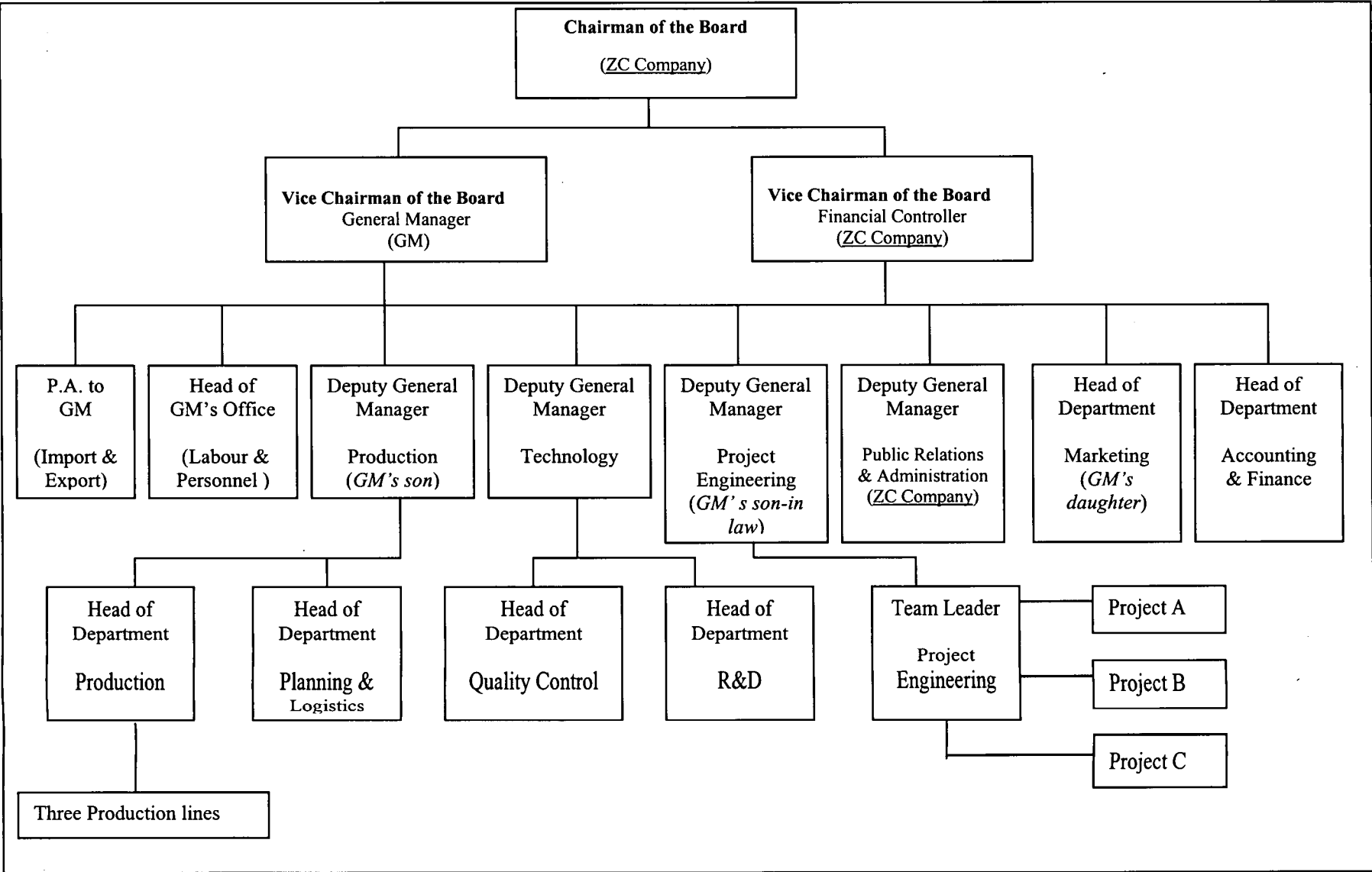
In late 1994 ElectroCo had 76 staff and workers, and 30 of them (nearly 40% of total) had completed tertiary education (i.e., they obtained either 2-year university certificates or 4-year bachelor's degrees). The total production output of ElectroCo at the end of its first year of operation (June 1994) was 15 million yuan, or more than

197,000 yuan per head. Although the size of the enterprise was small, it had a relatively complex structure, with a general manager's office, 6 functional departments, 3 production lines and 3 project teams (see Figure 8-1).

Although ZC Company held three positions in ElectroCo as indicated in Figure 8-1, neither the Chairman of the Board nor the Financial Controller was working at the enterprise. They received regular information from the enterprise and came only for the Board meetings. The Deputy General Manager appointed by ZC Company was the only person from the investors to work full time in ElectroCo. His major role was to handle public relations, especially to deal with public sector bureaucrats such as government officials and state bank staff, because ZC Company had strong connections with the government at central and local levels. He was also involved in ElectroCo's general administration work, which gave him a clear overview of the enterprise business and enabled him to offer assistance wherever and whenever necessary.

Of the other three Deputy General Managers of ElectroCo, one was a friend of Mr. GM's who came from NGT and was responsible for ElectroCo's technology development; the other two were Mr. GM's son and son-in-law in charge of production and project engineering respectively. Mr. GM's son was also the Head of Production Department, and assumed responsibility for three production lines and nearly half of the employees (37 out of 76). ElectroCo also had three project teams in three locations (the north, south and middle part of China), helping its customers to install electronic equipment and offer timely after-sales service. The three project team leaders reported directly to Mr. GM's son-in-law (see Figure 8-1).

Figure 8-1 ElectroCo Organisation Chart



There were six functional departments in ElectroCo as shown in Figure 8-1. Two of them (Marketing and Accounting & Finance) were under the direct control of Mr. GM. The heads of other departments reported directly to relevant Deputy General Managers. Mr. GM's daughter was the Head of Department of Marketing, and his wife was the cash manager in the Department of Accounting and Finance. The Personal Assistance (P.A.) to Mr. GM and the Head of General Manager's office were the two people who had resigned from NGT with Mr. GM. The P.A. dealt with imports and exports for the enterprise, while the Head of GM's Office assumed responsibility for all HR practices. From the organisation chart (Figure 8-1) it is clear that ElectroCo was basically a family operated and controlled business irrespective of its registration as a private or a mixed collective-owned and foreign-invested enterprise.

#### **8.4.3 Business strategy and the emerging role of the HRM function**

According to ElectroCo's prospectus, the mission of the enterprise was "to develop high technology in the telecommunications system, to meet the market demand by manufacturing quality products and offering first-class services, and to continuously increase market share through technical innovation and customer-oriented strategies". The telecommunications industry, including enterprises involved in cable TV and computer networks, developed in China since the mid-1980s. Parts of the telecommunications system in China still relied heavily on imports. ElectroCo aimed to manufacture more import substitutes and develop more suitable telecommunications systems in response to the residential and geographical situations in China.

In late 1994 ElectroCo was ranked the fifth among its competitors in terms of size and market share in China. However, the enterprise was facing intense competition as

more companies were entering the industry due to the high return on investment and the huge potential market. ElectroCo planned to expand production, increasing its output value from 15 million in 1994 to 20 million yuan in 1995. It also intended to set up an office in the US to keep up to date with the latest technology in the industry and to seek more business opportunities (Mr. GM's daughter, the Head of Marketing Department, would take this position).

As the industry required advanced technology and innovation, Mr. GM emphasised that it was critical to have competent, highly motivated and loyal employees. His strategy of managing human resources was to promote the concept that ElectroCo was a big family and everyone belonged to and worked for the family. He required all managers to set examples and invest time and effort in looking after their subordinates, such as rewarding high performers, celebrating employee's birthday, offering assistance with personal or family problems. ElectroCo had a core group of employees (*gugan* in Chinese, means backbone), including all managers, engineers and key technical people, who comprised just over 30% of the total employees (24 out of 76). This group of people was quite committed and played critical roles in ElectroCo's business operations. The following section elaborates on how these core and other employees were managed with respect to major HR activities.

## **8.5 HR Activities at ElectroCo**

In ElectroCo, HR activities were conducted by the Head of General Manager's Office (called the Personnel Manager in this study), but major decisions regarding some activities were made by Mr. GM, such as the recruitment of a manager, an increase in



wages or bonuses and the budget on training. The Personnel Manager admitted that she was still learning how to manage employees because she had only been involved in routine administrative work at NGT before she joined ElectroCo. Since ElectroCo formed its business alliance, the senior manager from ZC Company passed on some HR policies and regulations from his company to the Personnel Manager. The HR activities at ElectroCo, as noted by the Personnel Manager, were still at an experimental stage with different methods being tried. The six major activities, i.e., human resource planning, recruitment and selection, performance appraisal, compensation and welfare, training and development, and labour relations are examined below.

#### **8.5.1 Human resource planning**

Human resource planning at ElectroCo was conducted on an *ad hoc* and informal basis for two reasons. First, the prejudice and uncertainties faced by private businesses made it difficult to institute long-term business planning, let alone human resource planning. Mr. GM commented in the interview that although private businesses were "officially" protected and treated in the same way as other types of business, they were actually discriminated against by government policies. For example, newly established COEs and FIEs could receive various tax exemptions but not private enterprises. The tax rate of the enterprise was determined annually by negotiation with the local government department, and private enterprises often paid a higher tax rate if they did not have strong connections with the government. Apart from this variable and negotiable tax payment, private businesses were often charged excessive levies by government organisations (such as the industrial and commercial bureau, the communication and transportation bureau and even local education department) in the belief that private

business people earned enormous profits and should make a higher contribution to society. Private businesses also encountered more obstacles in obtaining bank loans.

Second, the family-style management practices led to the informality in human resource planning. Although managers were often invited to discuss business plans and offer their suggestions for future development, it was Mr. GM who made the final decisions and formulated the enterprise's short- and long-term business plans. The Personnel Manager explained that she only proposed the specific actions to put Mr. GM's decisions into operation, such as the number and type of people to be recruited for production expansion, and training programs to be offered to new employees. Her proposals had to be approved by Mr. GM before they could be implemented. His paternalistic leadership style plus many uncertainties in conducting private business all led to an *ad hoc* human resource planning.

Mr. GM noted that theoretically it was important to have both short- and long-term human resource planning to ensure that any vacant job positions would be filled by competent candidates. However, he argued that it was not realistic for a newly established private business like ElectroCo to have such a plan because of the volatile environment it was in. Other senior managers agreed with Mr. GM that once the business was well established and further expanded, the enterprise could adopt formal human resource planning based on one to two-year business plans.

Although the enterprise did not have a formal human resource plan, its job descriptions for production and managerial positions were being prepared when this case study was undertaken. The Personnel Manager had provided each department with a framework

for position descriptions, which included the position's title, job series number, classification, technical (or managerial) level, major accountability, work standard required, and requirement for the position holder such as qualifications, skills and experience. The managers in charge of relevant positions were to complete descriptions accordingly. The Personnel Manager believed that these position descriptions would facilitate both the establishment of a human resource plan in the future and the conduct of other HR activities.

### **8.5.2 Recruitment and selection**

The staffing activity in ElectroCo was conducted mainly at the level below the head of department, because all the positions at and above the department level, except the Deputy General Manager from ZC Company, were taken by Mr. GM's family members and his very close friends. Mr. GM personally made these appointments in order to be certain of their reliability and capability. His family members, i.e., his wife, son, daughter and her husband, who all held university qualifications, were placed at key positions to ensure the family's control over the business. His close friends, who were his former colleagues at NGT, were regarded as trustworthy and competent for their positions. Mr. GM also preferred to employ technical experts recommended by his family members or close friends as they were seen as more reliable. The people appointed directly by Mr. GM did not sign contracts, which meant their employment was based on mutual-trust and mutual-benefits, and once the mutual-dependence ceased, employment could be terminated.

The enterprise also had an unwritten rule that recruitment and selection of technical staff required final approval from Mr. GM or other Deputy General Managers. As a

result, the Personnel Manager mainly recruited and selected production workers and general administrative staff. A manager from the Department of Production was normally involved in the selection of production workers to ensure that new recruits had adequate knowledge and skill levels.

The sources of workers were local schools and labour markets. ElectroCo preferred to select workers from the new graduates of vocational schools who had studied electronic technology for three years. However, these students usually applied for state-owned or larger enterprises first. Therefore, the enterprise often had to select graduates from normal high schools who usually lacked vocational skills.

The selection process started with ElectroCo contacting relevant schools to pass on information regarding the recruits needed and the times for interviews. After arriving at the schools, the Personnel Manager and a production manager would interview those students recommended by their teachers and seek further information from relevant teachers. There were no formal selection criteria for production workers. However, candidates were usually considered suitable if they had completed year 12 (i.e., secondary education), had some evidence to demonstrate their dexterity (such as their practical work, part-time work experience or their teacher's recommendation), and were willing to work on production lines. Decisions were made at the end of interviews and successful candidates would be informed of the decisions and asked to sign a one-year contract.

ElectroCo's individual contracts specified job requirements, compensation packages and other employment conditions including an initial three-month probationary period and then a nine-month apprenticeship period. Before signing the contract, workers had

to pay ElectroCo 300 yuan (equivalent of two months' salary) as a bond (also called 'deposit of guarantee') to ensure that they would not resign before the end of the first year. The bond would be returned to them at the end of the first year, or be retained by ElectroCo if they worked for less than one year. This bond was added to the contract in early 1994 when the enterprise suffered a high turnover rate and lost the money it had invested in training. At the end of the first year, if both parties (employer and employee) were satisfied with each other, employees could sign a one- to three-year contract with no further deposit required.

ElectroCo also seached the local labour market for technical and managerial staff and low-skilled workers. Although many engineers and managers from NGT sought positions at ElectroCo because of its attractive pay, ElectroCo decided not to take any more staff from NGT. Mr. GM did not want to risk any deterioration in his relationship with NGT as his personal file was still held by the company. Therefore, when the enterprise needed new technical or managerial staff, the Personnel Manager would contact the local government employment agency for a list of suitable candidates. The basic selection criteria for technical staff were their qualifications (at least university certificate or above), age (below 35 years old), and work experience (2 years or above). When selecting technical staff, the Personnel Manager would assist Mr. GM or other Deputy General Managers by short-listing suitable candidates and participating in interviews. Once the General Manager or other Deputy General Managers made their decision, the candidates selected had to sign a one-year contract, without paying any bond. The contract could be renewed at the end of the first year.

For general staff and low-skilled workers, the Personnel Manager conducted selection by herself. Positions that required no or low skills and involved heavy physical work were usually filled by local rural workers who had left farming for work in the industrial sector. These workers often worked harder, received lower pay than other employees and were employed on a casual basis without contract.

### **8.5.3 Performance appraisal**

Performance appraisal was emphasised at ElectroCo through a pay system that offered low salaries but high bonuses to reward outstanding performance. Assessment of workers' performance was conducted monthly by the supervisor of each production line or by the project team leader. The purpose of assessment was mainly for bonus distribution and also for promotion. For example, the three supervisors were selected from production workers on the basis of such assessments and workers could also be promoted to higher job positions. The criteria for appraisal were based on enterprise regulations and specific requirements put forward by the relevant department.

The enterprise had regulations on labour discipline, such as punctuality for work, co-operation with fellow workers and obedience of instructions from the direct supervisor. These unwritten regulations were verbally transmitted to employees on their first day of work. A Deputy General Manager in charge of production once proposed more detailed rules regarding labour discipline to use in performance assessment and also in determining bonus deductions when the regulations were violated. All these rules started with 'no', such as no lateness and early leave, no snack food, no chatting, no wanderings, no phone calls, no visitors and many others. As these rules were too detailed and trivial, management rejected them. Instead, the three

production lines instituted specific job requirements for each position, including quantity, quality and allowable reject rate. The engineering project teams also had general requirements such as the timely completion of task, quality achieved and customer-oriented services. The supervisor and team leaders would assess their workers against these requirements in addition to their attendance record and co-operation with others. The assessment results would be reported to the Personnel Manager who would decide the bonuses given to each worker (bonus distribution would be discussed later). There was little feedback from the supervisors or team leaders to the workers. One supervisor commented that he only alerted workers to their substandard performance when they queried the reduced bonus that they had received.

While production workers had quantified and detailed assessment criteria and regular appraisal, there was no formal assessment for technical staff and managers for two reasons. First, detailed assessment criteria were not available for these people due to the lack of job descriptions specifying responsibilities and targets to be achieved. Second, unlike production workers, there was not an overall fixed level of bonuses for these people. The amount of bonuses they received was decided solely by Mr. GM and was completely confidential. During the interviews, some managers showed concern or even dissatisfaction towards bonuses distribution without any formal performance assessment. They preferred to be accountable for specified tasks and have their achievements rewarded accordingly. One senior manager remarked that Mr. GM had considered listing the responsibilities for every job position so that all staff and managers below the level of Deputy General Manager could be assessed on objective performance criteria.

The Personnel Manager told the researcher that she had suggested to Mr. GM to adopt a ten-point appraisal system for production workers. The ten items for appraisal included attendance, quantity, quality, safety, production materials saving, co-operation, and obedience of instructions. The appraisal form would be posted at the workplace so workers would be clear about their assessment criteria. A similar form, with the ten items modified appropriately, was also proposed by the Personnel Manager to be used for technical and managerial staff. Mr. GM agreed to use them once all job descriptions were completed.

#### **8.5.4 Compensation and welfare**

ElectroCo had its own policies and wage scales for compensation and welfare and was not constrained by government regulations in matters such as the 'ceiling' pay for the owner/manager of the private enterprise. When this case study was conducted, the Labour Law of the PRC had just been introduced, but was not yet formally implemented. So there were no legal regulations regarding minimum pay or necessary insurance payments, such as pension and medical treatment, for the enterprise to follow.

The wage scale used in ElectroCo had 13 grades, with the General Manager being the first, Deputy General Manager the second, Head of Department the third, Deputy Head of Department the fourth, supervisors, project team leaders and staff members with bachelor degrees the fifth and those with university certificates the sixth. Grade seven onwards covered workers with different skills, qualifications (i.e., technical school, normal high school and middle school), and seniority (apprentice or formal employees). For example, a worker with year-9 certificate would be paid at a lower



grade than one who had finished year-12 education even though they might work in similar positions. The wage level for each grade was determined according to the local market wage ranges. The Personnel Manager collected all relevant information about compensation packages offered by different types of enterprises in the same industry, and the General Manager would make decisions based on that information. Mr. GM usually selected the median of the market salary range but offered higher monthly bonuses as an incentive to employees. Wages usually accounted for 60% of the compensation packages, with bonuses made up the rest.

In August 1994 the enterprise raised its wage level by over 70% to address two major issues. The first issue was the high inflation rate. The government required all SOEs to increase salary levels by 20 to 40% by the end of 1994. Although this requirement was not imposed on private businesses, ElectroCo had to increase its wages to be competitive. The second issue was the high turnover rate of its skilled workers despite introducing the training bond (guarantee deposit) for newly employed workers, which only reduced the high turnover rate among new employees. Mr. GM decided to increase wages at each level to retain a skilled workforce. For example, people at grade five (technical staff with bachelor degree) were paid the same as the general manager of a COE like RadioCo (see Chapter 7), or as a head of department in a SOE like TeleCo (see Chapter 6). The wage scales at ElectroCo were also characterised by significant differentiation between grades, ranging from 20% to over 50%, such that a Deputy General Manager's monthly take-home pay (including wage and bonus) could be six- to eight-fold of the lowest wage level. As Mr. GM did not reveal his wage level, the wage discrepancy could be even larger than observed. Compared with wage

differences between scales in enterprises with other types of ownership, ElectroCo had the largest gap between the highest and lowest wage level and between each level.

ElectroCo distributed bonuses every month. An average bonus level for blue-collar workers was announced each month. Workers with excellent assessment results would be recommended by their supervisors or team leaders to receive above average bonuses, which had to be approved by the Personnel Manager. Those who had poor results on the performance assessment might have their bonuses reduced. The bonuses for managerial and technical staff were confidential although they were also distributed each month with wages. As the Cash Manager, Mr. GM's wife, was the person solely responsible for the distribution of wages and bonuses; even managers at a senior level might not know the amount of bonuses distributed to others.

In addition to its competitive compensation packages, ElectroCo also offered welfare benefits to its core group of employees (24 out of 76, including most employees at grade 6 or above, considered *gugan*). Welfare benefits included the pension (which would guarantee a reasonable monthly payment after one's retirement), life insurance, and medical insurance. Individual employees contributed 10 yuan per month, and could receive free medical treatment worth up to 3,000 yuan. For any amount above that, ElectroCo would pay 85% to a nominated hospital or 70% to an individually selected hospital. Apart from these insurance benefits, the enterprise gave each of the core group (*gugan*) 20 yuan per month for individually selected insurance.

In contrast, the welfare benefits for other employees were almost non-existent except for the lunch allowance. The Personnel Manager explained that the high technology

development zone where ElectroCo was located did not require the enterprise to purchase such insurance for employees, so this cost could be avoided. In addition, the high turnover rate once suffered by the enterprise made management feel there was little value in providing such benefits. However, the lack of welfare benefits seemed to be a significant factor for some skilled employees leaving the enterprise. One interviewee revealed that although ElectroCo seemed to offer a better compensation package, it was not attractive in the long-term, especially if one needed accommodation, which was often supplied by state enterprises.

With implementation of the Labour Law of the PRC on 1 January 1995, ElectroCo was required to offer some welfare benefits, such as insurance for pension, unemployment and medical treatment. This would inevitably increase ElectroCo's expenditure on employees' welfare benefits, but as it did not supply any housing allowances or accommodation to its employees, ElectroCo still spent far less on such benefits than did other types of enterprises, especially state- and collective-owned enterprises.

#### **8.5.5 Training and development**

ElectroCo did not have any plans for training, let alone any plans for employee career development. New workers were usually given two to three months of on-the-job training to enable them to operate with minimal supervision. For some skilled positions, on-the-job training could last six months. Apart from on-the-job training, the enterprise encouraged employees to obtain further skills or knowledge through part-time study. Achievement of a higher level certificate or degree would lead to a salary increase. For example, a worker who had completed year-9 education would be promoted to a higher wage scale if he/she obtained a year-12 certificate through part-

time study. However, the enterprise would not reimburse any tuition fees for employees whether they passed examinations or not and would not give them any leave time for study.

From July 1993, when ElectroCo started its operation, to the end of that year, the enterprise suffered a high turnover rate, with many workers resigning after they had completed on-the-job training and had become competent to work independently. This was partly because of the low wage scales and the lack of welfare benefits, and partly because of the autocratic leadership style of their supervisors. ElectroCo not only lost its trained workers, but also ended up supplying its competitors with already-trained employees. A bond was then introduced to newly employed workers to ensure that the enterprise received a fair return on its investment in training. However, the enterprise did not introduce any plans or programs for further training or career development for its current workforce.

The Personnel Manager was concerned about the managerial skills of supervisors and managers including herself and expressed a strong desire for further training to improve the managers' skills. However, with Mr. GM's attention focused on the development of new products and on increasing ElectroCo's market share, training and development were not major items on his agenda. As the Personnel Manager did not have any autonomy over the budgeting on training, she could not take initiative in this matter, but had to wait for Mr. GM to make a decision.

### **8.5.6 Labour relations**

There was no trade union at ElectroCo although this did not mean that labour relations were satisfactory. Rather, it was because private enterprises were not required by the government to set up trade unions. Furthermore, most of ElectroCo's production workers were new school graduates who came from families that used to work on farms (the high technology development zone where ElectroCo was located used to be a farming area). Given the absence of trade unions from rural areas, these workers did not have the tradition of establishing trade unions to protect themselves.

In the absence of trade unions and without welfare benefits being a legal requirement, ElectroCo was able to avoid providing welfare benefits to its ordinary workers who were obviously discriminated against when compared to the core group of employees. Apart from this injustice, workers also lacked the opportunity to participate in enterprise management. Some workers interviewed pointed out that they were never invited to management meetings nor encouraged to be involved in any decision making as supervisors often emphasised that workers should just follow instructions and complete their tasks. The workers also noted that although the enterprise was small, it was hierarchical, and workers seldom had the opportunity to talk with senior managers. Workers could only make complaints to the Personnel Manager after they had decided to resign. Mr. GM and other managers did not want to set up unions, because this meant discrimination against workers could continue unchecked. Mr. GM also claimed that it was unnecessary to have trade unions, as he believed that managers, especially the Personnel Manager, would be able to look after the employees.

## 8.6 Discussion and Summary

The case study of ElectroCo conducted in this chapter has supplied details to support some previous research on POEs. The current research had described the distinctive features of POEs, the type and behaviour of owner-managers of POEs (Siu, 1995), and the impact of private ownership on its HR practices (see the second section of this chapter). This section first discusses how these findings have been substantiated by the ElectroCo case. It then summarises the current HR practices at ElectroCo, explores the impact of ownership on such practices and examines a probable path of HRM development in ElectroCo.

This case study has highlighted how ElectroCo managed its business on a short-term basis (no more than one year), how it established a core group of employees based on kinship or friendship with its general manager (Mr. GM), how decision-making was controlled by Mr. GM and how the enterprise was privately operated while registered under the name of a collective and foreign-invested enterprise. These facts provide strong evidence to illustrate the major features of POEs as observed by many researchers (e.g., Chen & Shi, 1998; Gao & Chi, 1996; Yuan, 1993), that is, short-term orientation, heavy reliance on kinship or nepotism in staffing, family-style management and the red hat phenomenon.

While ElectroCo possessed the major features of a POE, its owner-manager, Mr. GM, demonstrated the attributes and behaviour of private entrepreneurs as noted by Siu (1995). According to Siu's entrepreneurial typology, Mr. GM belonged to a group of private entrepreneurs who started their own ventures because of dissatisfaction in their

previous jobs plus their greater technical skill and strong networking capability. This type of owner-managers would use certain practices to break the 'iron rice bowl' expected by Chinese workers, in an attempt to motivate them to do better work. These private entrepreneurs would also actively "solicit customers' comments in evaluating the product, and make changes accordingly. They identify unique selling points for their products and build-up distinctive advantages or competence of their own companies in order to compete better with state-owned enterprises" (Siu, 1995: 59). What Siu has claimed can be observed in Mr. GM and his business strategy, such as his departure from NGT to set up his own company, his emphasis on customised products and the guarantee of after-sale service, and his policy of low salaries with high bonuses to link individual workers' performance to their compensation. Mr. GM's strategy helped him to compete successfully in the market.

The typical features of POEs and their owner-managers have a profound impact on HR activities in POEs. The impact is evident in POEs' neglect of employee training and career development (Yuan, 1993), their non-standardised practices in managing employees (Gao & Chi, 1996; Wang, 1994; Zhao, 1998), the appointment of family members and close friends to key management positions (Chen & Shi, 1998), and their discrimination against blue-collar workers with respect to welfare provision (Sabin, 1994). Similar HR practices were also observed by Shaw et al. (1993) when they compared HR practices in ethnic Chinese businesses in Hong Kong with those in Western owned businesses. According to their observation, HR practices in Chinese private businesses are usually characterised by less extensive career development and promotion procedures, except for family members; less reliance on formal performance appraisal and feedback; a more authoritarian management style; lower

levels of staff training, low levels of explicit job analysis; a strong emphasis on the management of extrinsic rewards; lower levels of welfare and fringe benefits; and lack of emphasis on formal industrial relations procedures (Shaw, et al. 1993).

These HR practices typical in the private sector are well illustrated by the ElectroCo case. For example, ElectroCo only supplied on-the-job training to prepare new employees for work and not to improve existing employees' technical or managerial skills. Furthermore, the HR practices that applied to its core group of employees differed from those for blue-collar workers - examples include Mr. GM's personal appointment of key employees versus the Personnel Manager's recruitment and selection of low-skilled employees; bonuses based on monthly performance appraisals for workers while arbitrarily determined by Mr. GM for managers. ElectroCo's heavy reliance on Mr. GM's family members and his close friends in the management team also demonstrated one of the features of private business - *renren weiqin* (staffing based on kinship and nepotism).

The HR activities at ElectroCo are summarised in Table 8-3. The table indicates firstly, that ElectroCo employees were not allocated by the state or local labour bureau as was the case in other types of enterprises. Rather, it performed its own recruitment and selection for some employees although the procedure was informal given the lack of detailed selection criteria and structured interviews. Second, the enterprise set up some quantifiable criteria to assess workers' performance rather than relying merely on their attendance and working hours. Third, it used performance-related bonuses instead of distributing rewards equally among blue-collar workers. However, these



activities were only performed partially because they were either non-standardised or only applied to some employees.

**Table 8-3 HR activities at ElectroCo**

HR activities	Purposes	Features	Issues
HR planning	<ul style="list-style-type: none"> <li>- to satisfy the production needs</li> </ul>	<ul style="list-style-type: none"> <li>- <i>ad hoc</i> and informal</li> <li>- based on the General Manager's (GM's) decision</li> </ul>	<ul style="list-style-type: none"> <li>- lack of long-term business plans due to the uncertainty and insecurity surrounding private businesses</li> <li>- lack of formal plans because of family-style management practices</li> </ul>
Recruitment & selection	<ul style="list-style-type: none"> <li>- to have reliable and competent employees</li> <li>- to ensure family's control over the business</li> </ul>	<ul style="list-style-type: none"> <li>- GM's personal appointment to key positions</li> <li>- informal selection procedures</li> <li>- contract-based employment for blue collar workers</li> </ul>	<ul style="list-style-type: none"> <li>- lack of job description for many positions</li> <li>- informality</li> <li>- kinship and nepotism based</li> </ul>
Performance appraisal	<ul style="list-style-type: none"> <li>- for workers' bonus distribution</li> <li>- for workers' promotion</li> </ul>	<ul style="list-style-type: none"> <li>- quantified criteria for workers</li> <li>- only conducted for workers</li> <li>- no feedback</li> </ul>	<ul style="list-style-type: none"> <li>- no performance appraisal for white collar employees</li> <li>- little feedback to appraisees</li> <li>- not used for identifying training needs</li> </ul>
Compensation & welfare	<ul style="list-style-type: none"> <li>- to link individual performance to compensation</li> </ul>	<ul style="list-style-type: none"> <li>- low wages, high bonuses</li> <li>- GM determined confidential bonuses for key employees</li> <li>- welfare benefits only for core group of employees</li> </ul>	<ul style="list-style-type: none"> <li>- no welfare benefits for non-core group of employees</li> <li>- substantial gaps between high and low performers</li> </ul>
Training & development	<ul style="list-style-type: none"> <li>- to prepare new employees</li> </ul>	<ul style="list-style-type: none"> <li>- only on-the-job training</li> </ul>	<ul style="list-style-type: none"> <li>- no training for supervisors and managers</li> <li>- no career development for employees</li> </ul>
Labour relations	<ul style="list-style-type: none"> <li>- to work in harmony, like a big family</li> </ul>	<ul style="list-style-type: none"> <li>- no trade unions</li> </ul>	<ul style="list-style-type: none"> <li>- employees did not have any power to negotiate with management and their rights were not protected</li> </ul>

Table 8-3 also reveals that some HR activities were lacking at ElectroCo. It did not conduct human resource planning as is expected in Western enterprises, nor did it make any investment in its employees' career development except for on-the-job training for new workers. It did not have trade unions to deal with problems in labour relations, and failed to protect workers' rights such as their right to labour insurance and involvement in management decision making. HR activities such as recruitment and selection and performance appraisal were non-existent for employees holding key positions because they were either Mr. GM's family members or close friends. From a long-term perspective, this family-style management would be likely to prevent the enterprise from hiring more competent employees and hence reduce its competitiveness (Chen & Shi, 1998; Zhao, 1998).

What is the probable path of HRM development in ElectroCo? The case study revealed that managers, including Mr. GM, considered working towards longer-term human resource plans once ElectroCo's business was firmly established and further expanded. ElectroCo was preparing detailed job descriptions for each position, including technical and managerial jobs, with the intention of establishing more detailed selection and performance assessment criteria for white-collar employees in the near future. Furthermore, two appraisal forms, each with ten assessment items, were proposed for blue- and white-collar workers, which would not only standardise this HR activity but also link pay to performance for a greater number of employees. The intention to embark on more HR practices indicates that HRM was perceived favourably by managers in this POE and this trend is supported by the survey results in Chapter 10.

However, the vulnerability of private businesses to the external environment has demonstrated that the development of HRM in POEs will ultimately be influenced by modifications in government policies and regulations as well as by changed social attitudes towards the private sector. Only with the removal of discrimination against the private business sector can POEs have confidence in their businesses and thus prepare longer term planning in both their production and human resources areas. The official change in the status of private businesses - from being supplementary to becoming an important component in the Chinese economy - should increase the use of HR activities, which should in turn increase POEs' effectiveness and efficiency.

## CHAPTER 9

### CASE STUDY 4: HR PRACTICES IN A FOREIGN-INVESTED ENTERPRISE

#### 9.1 Chapter Objectives

The fourth and final case study was conducted at CableCo, a foreign-invested enterprise (FIE), or more specifically, a Sino-foreign joint venture. Like the previous three empirical chapters, this chapter has three objectives: 1) to describe current HR activities in CableCo; 2) to explore the impact of ownership type on HR practices; and 3) to describe and analyse probable paths of HRM development in the future.

The chapter first presents a brief overview of FIEs in China, and then explains the data collection methods employed in this case. The case study begins with background information on CableCo, then focuses on its current HR activities and concludes with a discussion of the findings to address the research questions proposed.

#### 9.2 Foreign-Invested Enterprises (FIEs) in China

The open-door policy announced in late 1978 symbolised China's sharp turnaround from an inward-looking and closed economy to one that rapidly opened up its economy to foreign investment and now actively participates in the world economy (Bharadwaj, 1995; Wong, 1993). As a result of this policy and the economic reform, China has witnessed a tremendous upsurge in the inflow of foreign investment. By the end of 1996, China had absorbed a total foreign direct investment (FDI) of US\$ 171.8 billion with 281,298 projects (*People's Daily*, 19 December 1996), and was ranked

second to the United States as a global destination for FDI (Walker & Ridding, 1996). Of particular interest is the enthusiasm for establishing FIEs, including Sino-foreign joint ventures and wholly foreign-owned ventures (FIE is commonly used as the umbrella term to describe FDI in China).

The FIE structure has been strongly fostered by the government because it has offered Chinese enterprises access to foreign capital, advanced technology, management know-how, and better quality products for export (Hoon-Halbauer, 1994; Nyaw, 1993; Verma, Yan & Chen, 1995). FDI has tended to take the form of an international joint venture with a SOE as its local partner (Child, 1993; Perkins, 1996), or as a fully owned subsidiary. To a certain extent, foreign ownership is instrumental in protecting FIEs from the various pressures of localisation (Lu & Bjorkman, 1997). However, many FIEs in China are either under-performing or failing, and many of their problems or failures are attributable to pitfalls in human resource management (e.g., Beamish, 1993; Fung, 1995; Huo & Von Glinow, 1995; Schnepf, Von Glinow & Bhambri, 1990; Schuler, et al., 1992; Tsang, 1994). Some of these issues are highlighted below.

The first major issue has evolved around the development of effective HRM strategy by foreign companies to improve the productivity of their workforce in China. Although China is under transition from a command economy to a market economy, “the shift from the older practices has only been partial, especially in larger enterprises, whether state-owned enterprises or even Sino-foreign joint ventures” (Warner, 1997: 40). This is mainly because large foreign companies, especially multinational enterprises, often have a stronger association with government partners in China than in other developing countries, and can be locked into retaining

management practices that are a legacy of the pre-reform days (Beamish, 1993). For example, in some FIEs, the egalitarian pay system is still in practice even though the eight-grade wage structure has been abandoned (Goodall & Warner, 1997). As Chinese human resource policies and practices are quite different from those used in developed and market-economy developing countries, careful consideration of local idiosyncratic practices is required to operate successfully (e.g., Child, 1994; Ding, Fields & Akhtar, 1997; Paik, Vance & Stage, 1996). Knowledge of how employees have been managed in the past may help foreign companies to understand local managers' difficulty or reluctance in accepting non-traditional or Western-style HR practices, which is a precondition to formulating effective HRM strategy in FIEs.

The second issue lies in the extent to which foreign companies can transfer their own HR practices to their joint ventures or subsidiaries in China. With the transfer of technology from a foreign firm to a FIE in China, it is generally thought that transfer of management techniques, of which HRM is an important component, is also required (Tsang, 1994). However, many researchers have claimed that foreign managers should not assume that identical HR practices can be applied to their Chinese enterprises, and Western-style HR practices should be introduced only when a Chinese perspective with respect to Chinese values and methods has been incorporated (Child, 1993; Fung, 1995).

Another major issue concerns the trend of HRM development in China due to its ongoing economic reforms. Many HR practices commonly used in the West have been introduced through the operation of FIEs with some now employed in China, and "both Western and Chinese management find HRM appropriate as a non-adversarial

and consensual management style that succeeds in co-opting the workforce” (Chan, 1995: 48). However, a particular term may carry a different connotation or orientation in the specific cultural context. For example, training in China is more focused on improving current performance deficiencies. There is inadequate opportunity for career development, particularly as employees tend to change jobs frequently in pursuit of higher wages rather than skills development (Zhu, C.J. 1997). The absence of career development plans plus a heavy emphasis on material incentives have contributed to the problems of high turnover and “disloyalty” observed in many enterprises, including FIEs (Tomlinson, 1997).

While developing and retaining quality staff has become a critical factor in resolving future HRM issues, compensation also plays a great role given the employees' changing attitudes toward bonus distribution. Traditionally, China has been a collective-oriented society (Hofstede, 1993). However, Chinese employees now prefer reward differentials “determined primarily according to individual contributions” (Zhao, Y. 1995: 127) and there is greater acceptance of wider reward disparities based on individual performance (Aiello, 1991; Ding, Fields & Akhtar, 1997; Walder, 1991). With future reforms inevitable in China, a compensation system based on individual performance will become more common and more entrenched (Zhu, De Cieri & Dowling, 1998).

Furthermore, the hiring of local staff has increased as evident in the greater number of foreign multinationals seeking local management after expanding their businesses into China (*China Business Review*, July-August 1996: 46; Melvin & Sylvester, 1997). However, many foreign companies have found it difficult to hire local managers with

strong managerial skills in the areas such as problem solving, decision-making and management of human resources (Melvin, 1996; Nyaw, 1993; Tsang, 1994).

In spite of these issues and emerging trends, increasing numbers of FIEs in China have adopted new operating styles and Western management practices, and foreign investors continue to call for a greater role of HRM in FIEs (Cyr & Frost, 1991; Von Glinow & Teagarden, 1990). Researchers have also noted that HR practices in FIEs have shown convergence with Western HRM (Lindholm, Tahvanainen & Bjorkman, 1999; Warner, 1998b). The rest of this chapter draws on the case study of CableCo, a Sino-Australian joint venture, to illustrate how HR practices are conducted in a FIE and to explore the impact of this type of ownership on HR activities.

### **9.3 Data Collection Methods**

As explained in Section 5.3.3, three data collection strategies are adopted in each case: documentation, interviewing and direct observation. During documentation, a range of written materials on the company was reviewed, including CableCo's company brochure, employee handbook specifying company's work regulations and employee regulations, labour contract, interview evaluation form, performance appraisal form, and internal documents such as manager's work report and in-house newsletters.

The interviews were conducted entirely on the company's premises, i.e. either in the manager's office or in the meeting room where privacy could be ensured. The average length of interview was about one hour with individuals and two hours with groups. Twenty employees of the company were interviewed as shown in Table 9-1. In



addition to CableCo’s employees, one senior manager from CableCo’s Australian parent company (AuzCo) was interviewed in Melbourne; he was heavily involved in negotiations with the Chinese party for the establishment of this joint venture and the business operation of CableCo. This manager supplied background information on AuzCo, its general HR practices in Australia, the establishment of the joint venture - CableCo and its current situation.

**Table 9-1 Interviewees – CableCo case study**

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• Executive Manager (2 interviews)
• Personnel Manager (Deputy Head of Personnel & Administration Department, 2 interviews)
• Production Manager
• Finance/Accounting Controller (Head of Finance and Accounting Department, concurrently Head of Personnel & Administration Department, an Expatriate and Australian Chinese)
• Finance/Accounting Manager
• Material Manager
• Quality Manager
• Line Managers/Process Engineers (3 of them, interviewed in one group)
• Supervisors (4, interviewed in two groups, each of 2)
• Production workers (6, interviewed in two groups, each of 3)

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During the one-week field study at CableCo, the researcher travelled to the company daily with other employees in the company bus, had lunch in the company’s canteen where free meals were supplied to every employee, and was given tours of the company. These activities allowed the researcher to conduct free and informal conversations with CableCo employees. Attending the company’s routine weekly meeting to discuss the week’s work gave the author a further opportunity to make observations.

## **9.4 Case Enterprise – CableCo**

Before examining HR practices in CableCo, a brief introduction to the company is presented, including its history and ownership, organisational size and structure, business strategy and the emerging role of the HRM function in the company.

### **9.4.1 Enterprise history and ownership**

CableCo is a joint venture between an Australian corporation, AuzCo, and two Chinese organisations - the municipal Post and Telecommunication Bureau (the Post Bureau as mentioned in Chapter 6) and a subsidiary company of China National Postal and Tele-communications Appliances Corporation (PTA). Both organisations are located in the city of Tianjing, a well-developed industrial city that is directly under the control of the central government. The main products of the joint venture are telecommunication cables and various other kinds of communication cables. The registered capital of CableCo was US\$8.57 million, of which 70% was invested by AuzCo and the remaining 30% was contributed by the Post Bureau and PTA.

AuzCo is a multinational corporation and one of the top fifty companies in Australia. It has a long trading history with China and was among the first Australian companies to set up joint ventures in China. The Cable Group of AuzCo possesses the latest technology in cable production together with a 50-year history of successful cable manufacturing. Both the Post Bureau and PTA are state-owned organisations with over 40 years of experience in operating and administering telecommunications in China. The co-operation between the Chinese and Australian parties from an early stage laid a solid foundation for the establishment and future development of the venture.

The first contact regarding a joint venture was made in June 1990. This was followed by both parties signing a contract in October and obtaining local government approval and a business license for the joint venture in late November 1990. It took less than 6 months for CableCo to be established after the initial contact. In January 1991, the company began factory construction along with selection and purchasing of equipment. The site was located in an Economics and Technology Development Zone, 47 kilometres from the central city where the Post Bureau and PTA were located. With the support of the local government, and through close co-operation between the two parties, CableCo produced its first telecommunication cable in March 1992, only 15 months after it commenced factory design and construction.

Before the establishment of CableCo, preparation work was the responsibility of a senior manager from AuzCo and six Chinese managerial and technical staff from TeleCo, a SOE under both the Post Bureau and PTA (see Chapter 6 on this enterprise). Among the six Chinese was the Deputy Director in charge of technical work at TeleCo who later became the Executive Manager of the joint venture. The other five were from TeleCo's Administration Office, Production Department and Accounting Department, and they all became senior managers in Cable after joining this FIE.

#### **9.4.2 Organisational size and structure**

CableCo's total output in 1993 was 75 million-yuan and it had a total of 184 employees by the end of October 1994. The annual output per head in 1993 was about 410,000 yuan. Since AuzCo contributed 70% of the total investment, it maintained four directors on the Board of CableCo while the Chinese party had two members. The Chairman of the Board was an Australian from AuzCo while the Vice-Chairman was a

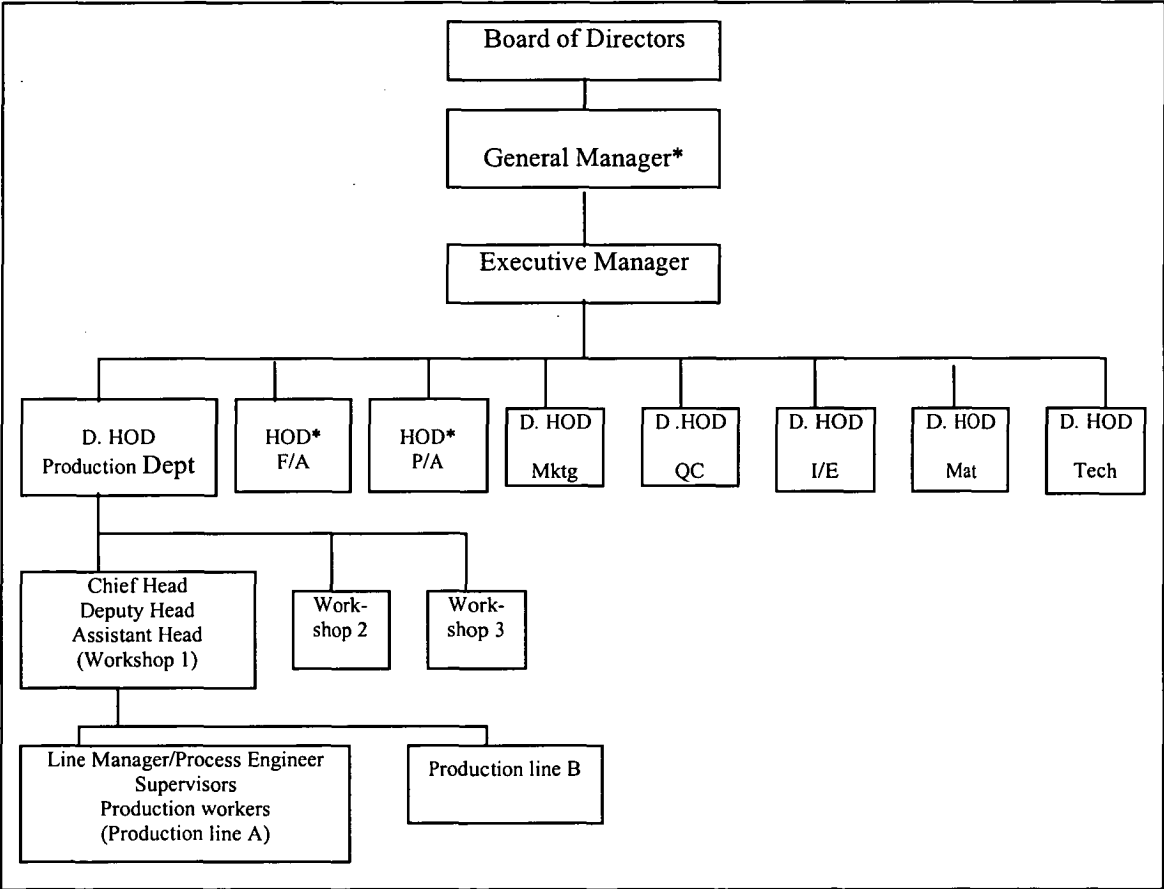
Chinese from the Post Bureau. To encourage localisation of the management team in China, AuzCo only sent two 'long-term' expatriates, the general manager and finance/accounting manager, to work in the joint venture on a full-time basis. Other expatriates, such as production and quality control engineers, worked at CableCo on a short-term basis.

The General Manager of CableCo was also the general manager of AuzCo's other cable joint venture in China. Because of his commitment to the other joint venture, the General Manager could only visit CableCo once a month for a few days. During his short stay, he inspected the work completed and dealt with problems or issues unresolved by the Executive Manager. The General Manager was an overseas Chinese from Taiwan selected by AuzCo, as one of AuzCo's expatriate selection criteria specified bilingual skills. The Executive Manager had day-to-day managerial responsibility for the whole company. When CableCo was set up, it had five Departments - Production, Finance and Accounting (abbreviated as F/A in Figure 9-1), Personnel and Administration (P/A), Marketing (Mktg) and the Technical Department (Tech). With the initiation of production, in March 1994, the company set up three new departments - Quality Control (QC), Materials (Mat) and Import & Export (I/E).

The current organisational chart is depicted in Figure 9-1. It is clear from the figure that the Production Department was the largest and also the most important functional unit in the company, claiming more than 60% of the employees (113 out of 184). In this department, the position of Head of Department (HOD) was vacant, thus the Deputy HOD (D. HOD in Figure 9-1) was responsible for all the work, with assistance from the Executive Manager when necessary. This department had three workshops

(represented by 1, 2, 3 in Figure 9-1) and each workshop had its own Chief Head, Deputy Head and Assistant Head. Within each workshop there were two to three production lines (shown as A, B in Figure 9-1). The line managers were also process engineers who were responsible for both the management and technical aspects of production. Each production line consisted of two or three groups of 7 - 9 employees, one of whom was the supervisor.

**Figure 9-1 CableCo Organisation Chart**



Note: \* refers to an expatriate

The HOD of Finance & Accounting Department was an expatriate sent by AuzCo, who was an Australian Chinese and could speak fluent mandarin. This manager was concurrently the HOD of the Personnel and Administration Department because it was

felt that a foreigner could deal better with difficult personnel management issues in China. For example, Chinese managers often found it hard to reject a candidate who did not satisfy the job requirement but was introduced or strongly recommended by friends, relatives, or superiors. Nepotism is criticised but still widely practised in China. In contrast, a foreigner would feel much less obligated in this regard and could refuse to accept this connection-based practice. Due to the small size of the other departments including Marketing, Technology, Quality Control, Materials and Import & Export, each of these departments had only one Deputy HOD and a small number of staff. A senior manager from AuzCo who had been responsible for preparation work prior to the establishment of the venture often came to the joint venture to help co-ordinate contact between AuzCo and CableCo.

Following his appointment, the Executive Manager was given the power to form a management team composed of his colleagues who had been involved in the establishment of CableCo. The management team preferred to recruit employees for the joint venture from the open labour market rather than from the Chinese partner's enterprise, TeleCo, because of the concern that employees from SOEs were used to 'eating from a big rice pot' (egalitarian pay regardless of performance). However, the joint venture law required that selection priority should be given to employees from the Chinese partner, and the contract signed by both parties stipulated that 60% of CableCo's employees should be recommended by the Chinese partner. Therefore, of the staff initially employed in the joint venture, 60% came from TeleCo while the remaining 40% were recruited from the general community through open advertisement.

Among the 70 managerial and production workers who left TeleCo and joined CableCo, 21 later returned to TeleCo as they were guaranteed by the contract to be re-employed by TeleCo whenever they resigned from the joint venture. Their reasons for leaving CableCo were various, including personal reasons, difficulties in meeting the requirements of efficiency and work intensity in the joint venture, and dissatisfaction with the pay system (to be discussed later). However, the remainder became key employees of the joint venture, performing roles such as supervisors, line managers or heads of departments. Employees were classified into two groups, managerial or non-managerial rather than cadres or workers as in SOEs. The former included managers and administrative staff while the latter mainly referred to production workers. This distinction was based entirely on their current job position.

#### **9.4.3 Business strategy and the emerging role of the HRM function**

As a modern enterprise in the cable industry, CableCo was equipped with the most advanced machinery and technology and a team of highly qualified employees. Using the trademark of AuzCo's Cable Group, CableCo soon attained a high reputation for its quality products and prompt service within domestic and international markets. The company's mission was "to produce quality products, provide first class service to customers and guarantee reliable delivery" (Company Brochure). The business strategy was to continuously develop new products, improve the quality of goods, reduce costs, manage its human resources efficiently and strengthen management control. Implementation of the company strategy depended heavily on effective employee performance and management control. This was strongly influenced by three factors. First, the production of communication cables requires a large quantity of raw materials and any wastage greatly increases production costs. Second, being an

information transmission medium, quality was a critical issue as cables were usually laid underground and quality problems would cause maintenance difficulties. Third, AuzCo's standard in terms of production, cost control and quality was used as a benchmark. Therefore, throughout the entire production process, from the selection of raw materials through to the finished products, efficient utilisation of materials and output of quality products was always emphasised.

Since economic reforms in 1978, the telecommunication sector in China has undergone rapid development. For example, the total number of telephones has increased from 3.69 million in 1978 to 38.02 million in 1994, or 0.43 telephones per 100 people in 1978 to 3.2 per 100 people in 1994 (Statistical Survey of China, from internal documentation). As a consequence, the cable industry has attracted investors from domestic and overseas markets and the supply of cables has outstripped demand. With increased competition from domestic and international cable manufacturers, the CableCo management team realised that improvements in efficiency and effectiveness had to be achieved through better utilisation of its human resources. This insight was clearly reflected in the comments made by the Executive Manager during the interview,

“People are the most important thing in an enterprise when other conditions, i.e., technology, market and government policies, are more or less the same as in other companies in the same industry. How to manage our employees so they remain loyal to the company and become more efficient in their work is a challenge we face now.”

The management of human resources at CableCo has thus become the major task for the Personnel and Administration Department (hereafter referred to as the Personnel Department) which is not an independent budget unit but has 26 full time staff (14% of



total employees). This department also fulfils miscellaneous functions that are beyond the control of other departments, such as public relations, employees' grievance, welfare, and even recreational activities. The daily work of the department was managed by two Chinese Deputy HODs while the HOD, an expatriate sent by AuzCo who was also the HOD of Finance and Accounting Department, mainly acted as a figurehead to assist Chinese managers to tackle subtle personal relationship issues whenever necessary. In addition to the administrative work, the Personnel Department became involved in developing the company's business strategy and in various other HRM activities such as human resource planning and compensation including wage packages and welfare. This was somewhat unusual, as wage administration is normally controlled by the department of finance and accounting in Chinese enterprises. CableCo followed the Chinese system for one year before integrating this function into its Personnel Department.

## **9.5 HR Activities at CableCo**

Before discussing HRM at CableCo, HRM at AuzCo's Cable Group needs to be addressed briefly as the Group assisted the joint venture in establishing its HRM system. AuzCo had a well-established HRM system with a HR director at corporate level, a general manager (HR) at group level, and a HR manager at company level. The Cable Group practised major HR activities as defined in the West (Schuler et al., 1992). For example, it executed human resource planning, although the significance of this activity had been recognised for only 2 to 3 years. This activity was used with merit-based recruitment and selection to increase the company's competitiveness by having the right people at the right time. It was also used with training to maintain a

high level of performance by updating employees' knowledge and skills. The company had job analysis to clarify job responsibilities and authorities, to establish individual performance standards, and to manage performance, compensation and employment planning. Managers also conducted performance appraisal interviews with their staff members mainly for performance feedback but sometimes for promotion and transfer. The Group also offered on- and off-the-job training programs to its employees. However, the Cable Group did not include a bonus system in its HR practices, and had insufficient employee career planning as it did not offer any formal career counselling. In addition, performance appraisal was conducted mainly for white-collar employees rather than blue-collar workers. The concepts of HRM used in the Cable Group were introduced to CableCo, and some practices such as merit-based recruitment and selection and performance appraisal were transferred to the joint venture as well.

How is HRM really conducted at CableCo? The following account will describe and analyse the HR activities at CableCo in six areas, i.e., human resource planning, recruitment and selection, performance appraisal, compensation, training and development, and labour relations.

#### **9.5.1 Human resource planning**

Human resource planning was conducted annually at CableCo under the control of the General Manager. The focus of planning was on the overall control of employee numbers. The demand for employees was generally based on production needs, which was greatly influenced by AuzCo because the Australian practice was used as a standard. Within the limit of a planned total number of employees, each department could put forward its staffing needs according to its production plans and number of

positions available. The Personnel Department would either employ or transfer employees to meet staffing needs. Planning was mainly regulated by top management, and the role played by the Personnel Department was primarily co-ordination and administration.

The reason behind short-term oriented planning, according to the Executive Manager, was that both parties held different ideas and approaches to business development. For example, the Chinese party strongly recommended investment in the project for producing optical fibre cable because they believed in the potential of a huge domestic market for such a product. Accordingly, they deliberately selected and employed some new graduates for preliminary work on this project. However, their suggestion was ignored by AuzCo, as the Australian party did not want to further expand its business prior to the identification of a market in China. When a long-term business strategy could not be accepted by both parties, the joint venture had difficulty making long-term plans for human resources, thus the Personnel Department recruited staff for the short-term or sometimes on an *ad hoc* basis.

Human resource planning was affected not only by the company's business strategy but also by the employee turnover rate. The turnover rate was closely related to employee background and commitment. At CableCo, employees from the Chinese partner's company, TeleCo, showed more loyalty and commitment to the joint venture and had a much lower turnover rate than new employees recruited from local rural areas. The employees from TeleCo all resided in the accommodation in the downtown area supplied by TeleCo. They were all older than 35 years with about 10 years of working experience with TeleCo. Being a SOE, TeleCo offered lifetime employment

to its employees even after they joined CableCo. This meant they could return to TeleCo if they resigned from the joint venture. With regard to accommodation, the joint venture paid the housing allowance (20% of employees' average salary) in two different ways. One was to pay the allowance individually to those who supplied their own accommodation. The other was to pay collectively to TeleCo as compensation for the dormitories it supplied to those employees working at CableCo. Therefore, the joint venture employees from TeleCo could still live in their original dormitories and remain on a waiting list with other TeleCo's employees for housing adjustment (to move into a larger flat). This was one of the major reasons that employees from TeleCo felt obligated to the joint venture. They showed more willingness to devote themselves to the development of CableCo and most of them became committed and key employees of the company.

By contrast, the turnover rate of locally recruited employees was much higher for two reasons: the nature of their job and availability of employment opportunities in the local area. As CableCo did not supply accommodation to its employees like many other foreign joint ventures, its employees, except those from TeleCo, were primarily recruited from the local area. CableCo was located in a recently developed coastal region, which had previously been rural farmland. Between 1984, when the Economics and Technology Development Zone was set up, and 1994, over 2000 enterprises with different types of ownership, such as foreign joint ventures, wholly foreign owned and privately-owned companies, had been established in the area. The local farmers had many employment opportunities even though they had less education than workers from the city. As these employees were usually offered low-skill jobs with money

being their highest priority, they showed little commitment to the company and were always ready to leave for a better paid job elsewhere.

In order to keep a stable workforce, CableCo had to consider issues such as the source of employees and turnover rate in its human resource planning. In dealing with these issues, as the Executive Manager noted, the supply of accommodation was a critical factor. In the mid-1990s, it was impossible for employees to purchase their own accommodation (see Section 9.5.4). The Executive Manager believed that the provision of accommodation to employees would attract more people from wider sources and retain them as planned. If it did not provide accommodation, the company would continue to suffer from an unstable workforce. Nevertheless, AuzCo refused to supply accommodation to Chinese employees, as they had never done so in Australia. Furthermore, AuzCo refused to increase the housing allowance (currently 20% of its wage bill), thus making it impossible for CableCo to supply any kind of accommodation (to be discussed in more detail later). This prevented the joint venture from recruiting employees outside of the local area unless the employees could find accommodation for themselves. With so many new companies in the area, the local labour market became competitive and the turnover rate became quite unpredictable, making human resource planning even more difficult.

Apart from the accommodation issue, the lack of participation by managers, especially line managers, also affected human resource planning. CableCo's line managers and other managerial staff such as supervisors were involved chiefly in the implementation of the plan rather than in the planning itself. This was partly due to the direct control exerted on the overall human resource planning by the General Manager, and partly

because the managerial staff lacked an understanding of human resource planning, as this HR activity did not exist at their level under the centrally planned economy.

### **9.5.2 Recruitment and selection**

The process for recruitment and selection at CableCo was for “the functional department to submit recruitment application to the Personnel Department and then to select candidates with assistance from the Personnel Department” (from internal documentation). Selection procedures comprised four steps. First, the department with a staffing need would submit an application to the Personnel Department detailing both the overall quotas of employees fixed by the company each year and the departmental production needs. Each application included a brief job description and candidate specifications to enable the Personnel Department to start recruitment.

Then the Personnel Department would recruit candidates according to the department's specifications through three channels. The first channel was to rent a stand in the local labour market, where the personnel staff could place job advertisements and hand out application forms. This was the cheapest way to recruit candidates (usually 300 yuan per day per stand)<sup>19</sup> and was mainly used for employing workers and technicians. The second was to advertise the job in local or national newspapers. This was used for recruiting experienced, middle to senior level managers or highly skilled professionals. It could cost thousands of yuan - one advertisement in the *Economic Daily (Jingji Ribao*, a widely circulated Chinese national newspaper) would cost 5,000 to 8,000 yuan per day. The last method was to recruit new graduates from universities. This required a payment of 10,000 yuan (1994 price) by CableCo to the relevant university

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<sup>19</sup> At an exchange rate of 6 yuan to A\$1, each stand was A\$50 per day.

for each new graduate employed by the company (in the mid 1990s, university education was nearly free to students, with the state paying most of the cost).

The third step was for the Personnel Department and the department that submitted the application to shortlist and select candidates. The Personnel Department would conduct general checks first, including the verification of applicant's qualifications, previous performance in political and professional areas, family background and social connections. After this stage, the applicant's file would be sent to the relevant department for further examination, especially in the technical area. The department would set written tests and/or conduct interviews by managers and professional staff. Candidates applying for managerial work were interviewed by the Personnel Manager and a manager from the relevant department. The Personnel Department designed a standardised interview assessment sheet for all departments that included items such as general impression (e.g., manner, attitude, & appearance); verbal skills (e.g., logical thinking, synthesis of ideas, clarity of expression); understanding of the company and the knowledge required; the match between applicant's experience and job requirement; determination shown by the applicant to work in the company; and proficiency in English. The interviewee was evaluated on a 5-point scale from "excellent, good, average, pass, to poor", and the total score was one determinant in the final decision.

Finally, after the department had chosen a candidate, it would inform the Personnel Department, which would make an offer of employment to the applicant. The applicant could refuse the offer without any negative consequences. However, the company had not experienced any rejections of employment offers. Once the applicant

accepted the offer, the Personnel Department would be responsible for all the administrative work, which included signing a probationary labour contract with the recruit, creating a personal profile and conducting a brief orientation session to present the employee handbook and a general introduction to the company. The Personnel Department kept a record of unsuccessful applicants with the intention of setting up a databank in the future. However, by 1994 the Personnel Department was still not computerised and many records, including personal profile, were still hand-written.

CableCo's approach to staffing offered each department an opportunity to select recruits according to its own specifications, which was particularly important as formal job descriptions were not available for many positions within the company. CableCo had written job descriptions only for production workers which specified the nature of the job, operation process and requirements for product quality and quantity. The descriptions set up the criteria for selection and also enabled workers to follow production instructions and perform self-monitoring. No other positions in CableCo had such formal descriptions. Supervisors in charge of these positions were required to verbally explain the work to new employees, covering details such as the type of work involved and the method used to complete the work. The verbal descriptions heavily depended on the supervisor's understanding of the job and his/her interpersonal communication skills. When the department had to offer a job description for advertising purposes, it was not based on a formal job analysis. In addition, the transfer of a supervisor could result in inconsistency in verbal descriptions. Thus the involvement of relevant department or line managers in the selection process helped to match candidates with the job and improved the efficiency of selection as indicated by



a low number of dismissals. CableCo had only dismissed five employees during their probationary period on grounds of incompetence in a period of more than two years.

Nevertheless, this selection method had its shortcomings because of its heavy reliance upon individual leaders in each department. It could result in a lack of consistent and objective standards within the company or poor adherence to the company's business strategy due to an individual manager's ignorance or negligence. For example, the company planned to computerise the whole management system including accounting and finance in late 1994, but the accountants employed in 1993 were not computer literate. Errors of this kind could be avoided if the selection criteria were tied to the company's strategy for development and human resource planning, and if the Personnel Department offered active guidance to departments rather than merely administrative assistance.

Generally, new employees had a six-month probationary period. During this period, the company could discontinue an employee's contract at any time if the person was found to be unsuitable for the job. Similarly, during this period the employee was free to resign without any legal obligation. After this period, employees would be given a formal labour contract. The contract system applied to everyone in the company and the duration of the contract was generally two years. If both parties were satisfied, the contract could be renewed for another two years. Employees who undertook training overseas and graduates who cost the company more than 10,000 yuan per head to employ had to sign five-year contracts. Anyone who resigned during the contractual period had to compensate the company for the training fee or for costs incurred in the duration of employment.

If any department wanted to dismiss an employee for incompetence, it had to submit a report to the Personnel Department, which then sent staff to talk with the recruit involved. Instead of immediate dismissal, the personnel staff usually encouraged the individual to resign to save face and minimise the negative impact on the morale of remaining employees. Only when someone had seriously violated the company's regulations or contract, would the Personnel Department support immediate dismissal of the person concerned.

### **9.5.3 Performance appraisal**

CableCo formally adopted a performance appraisal system in June 1993 with the intention of linking performance with compensation so as to break the iron rice bowl practice prevalent in Chinese SOEs. As the company had not set up a bonus system by late 1994, the purpose of performance appraisal was for wage administration, i.e., to increase or decrease employee wage scales according to annual assessment results.

Based on the appraisal form used in AuzCo, CableCo's Personnel Department designed its own assessment form with the same criteria for both managerial and non-managerial employees. However, the weighting given to each criterion varied between different groups. For example, items related more to managerial skills would be weighted more heavily for managerial employees while items related to technical competencies would be weighted more heavily for production workers. There were 10 major criteria in conducting appraisals, including knowledge of the job, quality and quantity of work completed, supervisory potential, reliability, awareness of cost reduction, occupational safety, adaptability, co-operation and communication. Each item had a brief definition, for example, knowledge of the job was defined as "the

degree to which the employee has learned and understood the objectives and procedures of the job”.

Each criterion was assessed on a 5-grade scale ranging from “outstanding” to “marginal”. For example, the 5 grades for “quality of work” were classified as:

- 5) Exceptionally high quality - consistently accurate, precise, quick to detect errors in the work;
- 4) Work sometimes superior but usually accurate – negligible amount needs to be redone and work regularly meets standard;
- 3) A careful worker – a small amount of work needs to be redone, corrections made in reasonable time, and usually meets average standards;
- 2) Work frequently below standard – inclined to be careless, and small amount of work needs to be redone;
- 1) Work often below standard – seldom meets normal standards, and excessive amount needs to be redone.

According to different job positions, any quantifiable standards were incorporated into each grade.

The appraisal at CableCo was conducted annually from the top to the bottom, which meant the Executive Manager evaluated the performance of department managers, while department managers assessed line managers, and line managers assumed responsibility for evaluating supervisors and production workers. The appraisal was conducted without the appraisees’ knowledge and the rating was totally dependent upon the appraiser's daily observation and individual judgement. The appraisal ratings were kept confidential from appraisees as required by the Personnel Department. After appraisers at each level completed the evaluations, the appraisal forms were handed over to the Personnel Department. The personnel staff would then check each employee’s personal records to see whether he/she received any rewards or penalties during the year, as these results would also be incorporated into the final assessment.

The final score of the appraisal was calculated by the Personnel Department and would be used to determine a wage increase or reduction.

The managers at CableCo valued this kind of appraisal, as they believed it was a time-effective method of encouraging people to work harder. They were also in favour of keeping the appraisal results confidential to avoid possible conflicts with employees. However, the confidentiality of the appraisal form aroused strong dissatisfaction among many employees. During the research interviews, production workers expressed their concerns at the way the appraisal was conducted. First, they were denied access to the appraisal form and thus ignorant of the contents and criteria of assessment. Second, they questioned the appraiser's ability to make a fair and unbiased judgement of subordinates and raised doubts about the influence of personal relationship on assessment results. Finally, they were concerned about the consistency and reliability of the appraisal results that were heavily dependent upon individual judgement.

Although the company's intention in conducting performance appraisal was to break traditional egalitarian practices by linking performance to individual pay so as to offer employees more incentives, defects in the system reduced its effectiveness. First, without the knowledge of appraisal criteria and their measurement, employees were denied the opportunity to clearly understand and fulfil the company's requirements for high performance. Second, the confidentiality of appraisal results distanced managers from employees because of distrust resulting from this privately conducted assessment, which also failed to achieve other appraisal purposes such as communication and development. Without feedback from the assessment, employees had difficulty

identifying deficiencies in their work and could not improve their performance for future appraisals. Furthermore, the lack of participation by managers and employees in formulating appraisal criteria diminished initiatives and reduced enthusiasm towards such an appraisal.

In addition to performance appraisal, the company had penalty policies. The Personnel Department issued a list of prohibited behaviours and their corresponding penalties, including verbal or written warnings, suspension from work and dismissal. Any kind of penalty would result in a one-off fine or a reduction of wage scale. However, the company did not have a policy for rewarding or encouraging positive behaviour. Those who performed well were rated higher in the performance appraisal, and might receive a wage increase after the annually conducted performance assessment.

#### **9.5.4 Compensation and welfare**

The compensation and welfare system at CableCo was quite different to other SOEs. The differences were chiefly reflected in the unpredictability and confidentiality of the design and distribution of its wage packages. From the first day of its operation, CableCo eliminated the fixed wage scale that had been used for over four decades in China, especially in SOEs. The initial wage package for different job positions was determined by factors such as the relevant wage level in both local and domestic markets, wage levels in other foreign joint ventures and the inflation rate. While the government required that the wage scale in joint ventures should be at least 20% higher than in SOEs, the company kept its wage level more than 50% higher than SOEs. For example, CableCo production workers with the same education and work experience as their counterparts in a SOE could be paid over 700 yuan per month in

1994. The payment for an equivalent position in a SOE such as TeleCo would be less than 500 yuan (the payment here refers to take-home-pay, including allowances and bonuses). Managers at CableCo were paid at an even higher level than their counterparts at TeleCo. Given the intense competition in the local labour market, CableCo kept its wage scale in the upper middle range among local FIEs to retain its key employees.

After employees started work, wages would be adjusted solely on the basis of performance or changes in position, rather than on seniority. Therefore, the wage package for each individual became relatively unpredictable because it was no longer fixed by the job position or length of service. Employees who achieved high score in the annual performance appraisal would have their wages increased. Although the validity and reliability of performance appraisal were questioned by employees, it still helped to link pay to performance.

Each individual's wage package was kept confidential as required by company regulation. The Employee Handbook stated that employees were not allowed to reveal their own wage scales or inquire about others' wage packages. Otherwise, they would either be warned or penalised. The reason for the confidentiality of wage packages, as explained by the Deputy Head of the Personnel Department, was to abolish the old iron wage system (fixed wage scales regardless of employee performance) while avoiding unnecessary jealousy or dissatisfaction among employees. This manager further noted that although employees favoured performance-linked pay, many people still had difficulty accepting the fact that high performers would earn more than low performers regardless of their age, position and length of service.

During the interviews conducted by the researcher, the interviewees were asked about their attitudes towards the company's unpredictable and confidential wage packages. The managers interviewed generally responded positively, because most of them were satisfied with the pay they received and the way it was distributed. This wage system gave them incentives to perform well, and also avoided unnecessary envy or resentment from their less well paid colleagues or subordinates. However, the managers showed strong dissatisfaction towards the absence of a bonus system within the company, as they all believed that annual wage increases could not offer timely rewards to employees. Similarly, production workers interviewed considered this wage system to be acceptable except for the uncertainty of the criteria for wage increases and the absence of a bonus system. The first issue could be addressed by reforming the conduct of performance appraisal, while the second issue needed to be considered by the company. Although both managers and workers believed that a bonus system could further differentiate high and low performers and link reward more closely to individual performance, their opinion was not supported by the company.

The company had not set up a bonus system because of concerns from both partners of the venture. From the Australian parent company's point of view, bonuses could not be considered until the joint venture had repaid all its loans and started to make profits. The Chinese partner thought the bonus system should not be established until other supporting activities were satisfactorily conducted such as job analysis and performance appraisal. Since the bonus system was restored in 1979, it has become a significant part of wage packages in Chinese enterprises, with an aim to offer incentives to employees. However, bonus was often equally distributed among employees to avoid potential disputes or conflicts and thus lost its function as a

motivational tool. In the absence of an effective way to closely link bonuses to performance, the company preferred not to set up a bonus system. However, after more than two years of operation, managers and employees, especially those in the production and marketing departments, expressed a strong desire for a bonus system. They maintained that a bonus system would better link performance with compensation, and allow CableCo to remain competitive in a tight labour market.

Although the company used performance appraisal results to help adjust wages, this method had its limitations. First, as CableCo's managers had pointed out during interviews, the wage adjustment normally occurred only once a year and hence often delayed the company's recognition of outstanding employee performance and their contribution to the enterprise. Second, as wage scales were usually set up for long-term purposes, it was inappropriate to substantially enlarge wage differences between high and low performers working in the same position. Third, a person's wage level was not easy to reduce, as employees in China were accustomed to wage increases. By contrast, bonuses would be flexible and easily adjusted, rewarded at the appropriate time, and the gap between high and low level bonuses could be broadened to further encourage high performers. Finally, a bonus could be more closely linked to the company's total performance. As CableCo did not have a profit-share plan, managers and workers felt that a bonus system was an adequate substitute for the time being.

In mid 1994, 11 production workers resigned from CableCo and returned to their positions at TeleCo. The Executive Manager used this example to explain how a bonus system could have prevented their resignations. The 11 people were all experienced and key workers in production lines and were all high performers at CableCo.



However, because of the significantly higher requirements at CableCo in terms of product quantity and quality, work intensity and a stronger management control, they had to work much harder at CableCo than at TeleCo. In addition, they spent over two extra hours in daily travel time because CableCo was nearly 50 km away from their residences. Although their wages were over 50% higher at CableCo than at TeleCo, they did not feel that their efforts were adequately compensated. Two of the resigned workers told the researcher (when the researcher was completing the case study at TeleCo) that CableCo's wage system without bonuses did not really differentiate between high and low performers as wage differences were small (some workers told the researcher that they knew their close friends' wages, and usually people working at the same position could find out this 'secret' through 'gossip'). When the company suddenly lost these 11 workers, the production lines almost collapsed and it took nearly two months to train new workers to work independently on the lines.

In late 1994, the Executive Manager submitted a report to the General Manager regarding the establishment of a bonus system. He suggested that monthly bonuses should be adopted to encourage the achievement of production or sales objectives and a reduction in material wastage. He provided detailed calculations on the amount of bonus and recommended a method of bonus distribution. During the interview, the Executive Manager emphasised that the bonus system should be used in conjunction with performance appraisal. However, he agreed that the appraisal system should be revised first to enable employee participation in criteria-setting and establish a more objective measure of employee performance. However, when this case study was completed, the company was still waiting for approval from the General Manager to alter the appraisal system and establish a bonus system.

Apart from compensation in the form of wages, the company also made efforts to meet the welfare needs of its employees. The company offered transportation for employees to travel between home and work, and supplied free meals during working time. It also purchased health and social insurance for employees' medical treatment and superannuating purposes. However, CableCo did not supply its employees with any accommodation, which was one of the major welfare items offered by many Chinese enterprises. In China, due to low wages, few employees are able to buy their own apartments or flats. For example, in 1994 in the area where CableCo was located, a two-bedroom apartment with total living space of 50 square meters cost 200,000 yuan. A line manager in the joint venture could only earn approximately 12,000 yuan per year. Although banks started to offer home loans to individuals who had guarantee of the company, they had to pay 30% of the purchase price as a deposit. This equates to 60,000 yuan which was an impossible sum for most ordinary wage earners. The accommodation problem limited CableCo's sources of labour. The Executive Manager was very concerned, especially as the situation was bound to worsen once production expanded further and more modern technology was introduced. However, the Australian partner showed little empathy towards this issue.

#### **9.5.5 Training and development**

“Qualified people are the essence of manufacturing quality product; therefore, the company has placed heavy emphasis on staff training in production technical and managerial areas. Staff are encouraged to undertake advanced studies and every opportunity will be given to staff to go overseas to attend training programs provided by equipment suppliers or cable manufacturers, in order to keep up with the latest developments in technology” (Company Brochure).

As a specialised cable company, CableCo was equipped with world-class machinery and technology, which in turn required a highly skilled workforce. The managers at

CableCo all believed that training was critical in maintaining a competent workforce to survive the rapid development in technology and the intense market competition. Each year the company used 1% of its total payroll for training purposes as required by the government. The Personnel Department organised training programs according to production needs. The target groups for training included new recruits in three categories: production workers, technical professionals and managerial staff.

The training program for new production workers included introduction to the company's rules and regulations, and provision of detailed information on operation processes, production quality requirements and control of production materials. Training for technical professionals involved familiarising them with the technical standards of products, technological process, and technical skills used in production. Some training programs were also organised to improve employees' analytical ability and English skills. The emphasis in managerial training was on the relevant skills needed to perform particular roles in the job, such as job analysis and the conduct of interview. Most of these training programs were offered either during employee orientation or on the job. Sometimes technical or managerial staff could have half a day off to attend short training courses organised by external organisations, such as the Taxation and Accounting Bureau or other professional institutions.

Although training was emphasised by the company, there was no systematic training plans to assist individual career development. The personnel manager admitted that the training programs were often designed according to emerging issues in production, such as new skills required or new employees recruited. The reactive nature of the training program could be due to two main factors. First, as the company's human

resource planning was short-term oriented, it was difficult to have a proactive training plan. While the company was concentrating on the current year's production and sales, the Personnel Department only organised training programs when required by other functional departments. Second, although particular deficiencies in training might be noted during performance appraisals, this information was not used by the Personnel Department in its planning of training programs. Performance appraisals were used primarily to determine wage levels, not as information sources for feedback, development or planning. The *ad hoc* nature of training and the lack of integration of the various HR activities further reduced the effectiveness of training.

While technical staff at CableCo showed the desire for regular training to update their skills and obtain greater exposure to new technical developments, many key technical staff who were promoted to management positions also required training in management. One newly appointed department manager talked with the researcher about his difficulties with management work. He was employed because of his technical competence but he did not have any training in management. Similarly, some university graduates who had undertaken both technical and managerial work as process engineers and line managers, were particularly interested in management training as few had studied management subjects at university. However, the company did not have a program to meet those individual needs and employees, especially managerial staff, often relied on self-education through work. Furthermore, while the company offered training programs, it neglected to collect feedback from trainers and trainees. Without such feedback on the training's purpose, contents, and approaches, it was difficult to evaluate the effectiveness of training and to make any improvements.

### **9.5.6 Labour relations**

No industrial dispute has occurred since the establishment of CableCo and this could be attributed to the active role played by its trade union. CableCo's trade union was set up on December 31, 1993, after a vote by ballot. All Chinese employees, including the Executive Manager and other managers, became union members. A Committee of three was elected by the members. The Chairperson was concurrently the Deputy Head of Personnel, and the other two committee members were the Deputy Head of Production and a line manager. The union was divided into 11 groups and each group had a head elected by group members.

The trade union at CableCo played its traditional role, namely, a bridge between management and employees, or “a transmission belt”. It was both the workers' representative and the management's assistant. The former role was to look after workers in terms of their personal interests and their welfare, such as payment, accommodation and family issues. The latter role was to assist management to implement the company's decisions and to achieve the company's objectives. When the company called a top management meeting to discuss business strategy, production plans and wage increases, the chairperson of the union was present in the capacity of both the union representative and Deputy Head of the Personnel Department. The Chairperson's unique position of representing both management and labour enabled her to easily collect employee opinions, suggestions or complaints, which would then be discussed at management meetings or with relevant managers.

Being the workers' representative, the union negotiated with the company on behalf of employees and helped to improve their welfare and working conditions. For example,

the union succeeded in obtaining lunch allowances from the company to offer employees free meals during working time. In the summer of 1994, the union negotiated with the company to supply employees with "hot weather allowance" to purchase more soft drinks and to prevent heat stroke. The Chinese senior managers admitted that when they thought it was necessary to obtain extra welfare for employees from their Australian partner, the union was more adept in conducting such negotiations with the General Manager or other Australian expatriate managers. This might be because the Australian partner may be more likely to refuse the Chinese manager's suggestion than those raised by the trade union.

As management's assistant, the union helped management to achieve the company's objectives. For example, in September 1994, the company was under pressure to export large quantities of various products. In order to help the company to meet this demand, the union organised a labour emulation activity (*laodong jingsai*) under the slogan: "the company is in my heart and quality is in my hands". The union drew up a tracking plan, detailing the quantity and quality required, the deadline for each department, and the prize to be rewarded for achievement of the goal. Motivated by the union, employees worked hard for four weeks without any holidays or weekends off (there were 6 working days per week at that time). Without the trade union, the management could not have coerced the employees to work for such a long unbroken stretch. Only because the union organised the work program did they manage to achieve the targets, allowing the company to successfully complete its export task.

Furthermore, the union was responsible for arranging recreational activities for all employees. Usually once or twice a year the union would organise and subsidise free

trips to tourist attractions. It was believed that such activities could help enhance team spirit, facilitate interpersonal communication among employees and increase cohesiveness within the company. During the interviews conducted by the researcher, the employees all indicated their appreciation for what the union had done for them and revealed their trust and sense of belonging towards the union.

## **9.6 Discussion and Summary**

This chapter has outlined how human resources are currently managed in a FIE, CableCo, with respect to the six HR activities, which are summarised in Table 9-2. From this table it can be seen that the major HR activities defined by Schuler et al. (1992) were all in existence in this joint venture. However, as indicated by the previous literature review, a particular term may have a connotation or orientation in China that differs from the West. The most obvious example is the practice of performance appraisal. The format of the appraisal practice transferred from AuzCo was characterised by job-related criteria for assessment instead of the politically oriented criteria traditionally used in China. The performance appraisal system was introduced with the aim of weakening the old practice of egalitarianism by linking pay to performance. However, the assessment was conducted solely by the employees' superiors in confidence and was used only for wage determination. The appraisal system therefore failed to achieve the objectives that would be expected in the West - objectives such as an increase in communication between appraiser and appraisee, and the identification of training needs for performance improvement and career development. In addition, the legacy of traditional HR practices can be observed in CableCo, such as its reactive and passively conducted training program that was quite common under a command economy.

**Table 9-2 HR activities at CableCo**

HR activities	Purposes	Features	Issues
HR planning	<ul style="list-style-type: none"> <li>- overall control of employee numbers</li> </ul>	<ul style="list-style-type: none"> <li>- short term oriented</li> <li>- top management-decided</li> </ul>	<ul style="list-style-type: none"> <li>- lack of long-term business strategy</li> <li>- high turnover rate of local employees</li> </ul>
Recruitment & selection	<ul style="list-style-type: none"> <li>- to meet staffing needs</li> <li>- to have the right people</li> </ul>	<ul style="list-style-type: none"> <li>- have a standardised procedure</li> <li>- merit-based selection</li> <li>- formal selection methods, e.g. test &amp; interviews</li> <li>- contract-based employment</li> </ul>	<ul style="list-style-type: none"> <li>- lack of job description for many positions</li> <li>- limited to the local area due to accommodation problems</li> <li>- heavy reliance on knowledge and quality of key individuals</li> </ul>
Performance appraisal	<ul style="list-style-type: none"> <li>- for wage administration</li> </ul>	<ul style="list-style-type: none"> <li>- have formal assessment sheet</li> <li>- conducted confidentially</li> <li>- no feedback</li> </ul>	<ul style="list-style-type: none"> <li>- reluctant to give feedback</li> <li>- not used for identifying training needs</li> <li>- reliability of assessment questionable</li> </ul>
Compensation & welfare	<ul style="list-style-type: none"> <li>- to link performance to the wage package</li> </ul>	<ul style="list-style-type: none"> <li>- unpredictable wage scales</li> <li>- kept confidential</li> <li>- no bonus</li> </ul>	<ul style="list-style-type: none"> <li>- no timely reward</li> <li>- no substantial gap between high and low performers</li> </ul>
Training & development	<ul style="list-style-type: none"> <li>- to prepare new employees</li> </ul>	<ul style="list-style-type: none"> <li>- mainly on-the-job training</li> <li>- passively organised</li> <li>- reactive to solve emerging production problems</li> </ul>	<ul style="list-style-type: none"> <li>- not proactive</li> <li>- lack of training for managers</li> <li>- lack of career development for employees</li> </ul>
Labour relations	<ul style="list-style-type: none"> <li>- transmission belt between management and employees</li> <li>- to negotiate between Chinese and foreign partners regarding employees' welfare</li> </ul>	<ul style="list-style-type: none"> <li>- Chinese employees are all union members</li> <li>- focus on employees' welfare</li> <li>- assistant to management</li> </ul>	<ul style="list-style-type: none"> <li>- To what extent does the trade union represent workers' interests in terms of their rights and power?</li> </ul>

Some HR activities at CableCo have shown a tendency to converge with those practised in the West. This includes merit-based recruitment and selection, formal



selection methods such as tests and interviews, and compensation with a focus on individual performance. Similarity in practices between CableCo and AuzCo could be partly attributed to its ownership, because the ownership of FIE had offered CableCo access to Western management practices. This type of ownership often requires the transfer of technology and management practices, at least in concept, from foreign companies to subsidiaries in China. In CableCo's case, the joint venture was required to use AuzCo's standards as its benchmark in production and quality control, which in turn has demanded more effective management of its human resources. Furthermore, the autonomy granted to FIEs, the recently emerged free labour markets, and the development of a market-driven economy have all influenced CableCo to adopt or experiment with new HR practices in order to achieve the company's objectives. Nevertheless, this type of ownership also prevents the adoption of certain practices that evoke conflicting attitudes from the two parties. This is evident the refusal of AuzCo to provide accommodation for CableCo employees, thus hampering CableCo's ability to make long-term plans in regard to human resources.

Some HR practices had unique Chinese characteristics, such as the role of the trade union, and non-confrontational labour relations between management and employees. However, this practice could change if a conflict arose between the foreign and Chinese partners, where the trade union could act as a negotiator for the Chinese party including both Chinese workers and managers as occurred in CableCo. This phenomenon has been observed by other researchers (Chan, 1995; Nyaw, 1991; Warner, 1995). For example, Nyaw (1991: 115) has noted that "one unique aspect of the trade unions of joint ventures in China is that they deal directly with foreign partners or their representatives with regard to labour disputes or grievances" rather

than the joint ventures *per se*, because the joint ventures are owned partly by the state and the unions are not supposed to negotiate with the state.

CableCo already had plans to develop HR practices, as indicated in the case study. For example, the company was going to replace its verbal job descriptions with written descriptions to facilitate the establishment of objective selection criteria. The conduct of performance appraisal was also going to be altered to offer feedback to appraisees and to help identify training needs. A bonus system was to be established, with the aim of linking compensation more closely, both in time and quality, to individual performance. Training in management skills and other technical aspects was strongly called for by employees and managers, and was listed on the agenda of the Personnel Department. This evolution of HR practices could be indicative of future HRM trends in FIEs in China. Although the findings from one case cannot be generalised across all FIEs, this case study has offered field examination of HR activities in one FIE, which, together with the results from the survey questionnaire, can be used to draw some broader conclusions (see Chapter 10).

## **CHAPTER 10**

### **SURVEY OF HR PRACTICES IN CHINESE INDUSTRIAL ENTERPRISES**

#### **10.1 Chapter Objectives**

While the previous four chapters used a qualitative case study approach, this chapter employs a quantitative survey research method. This chapter has similar objectives as the case studies; however, it addresses research questions that are more quantitative in nature. It aims to: 1) investigate the status quo of the HR department and the existence of HR activities in the industrial enterprises; 2) examine the extent to which HR activities are currently conducted and are expected in the future, and respondents' perceived effectiveness of some HR practices; 3) explore the extent of the impact that ownership types have on HR practices; and 4) analyse probable paths of HRM development in the future.

The survey questionnaire was divided into three major parts. The first part explored the background of the enterprises and respondents surveyed. The enterprise's HR department was the focus of the second part, which looked at the department's structure, the HR manager, the activities conducted and the department's perceived importance. The final part examined the existence, practices and perceived effectiveness of seven major HR activities, including HR planning, job analysis, hiring practices, performance appraisal, compensation and welfare, training and development, and labour relations. This chapter will discuss survey results

systematically, concluding with a summary of the results and their implications for the development of HRM in China.

## **10.2 Background of Enterprises and Respondents**

Survey questionnaires were distributed to 850 managers and employees in Chinese industrial enterprises with four major types of ownership. A total of 440 usable questionnaires were received (the response rate was about 52%, see Section 5.4.2). Among the 440 respondents, 221 were from SOEs, 93 from COEs, 28 from POEs and 98 from FIEs. Responses from enterprises under the same type of ownership were grouped together in the analysis of the impact of ownership on HR practices.

### **10.2.1 Enterprises**

The majority of enterprises surveyed were in the manufacturing industry (86% of SOEs, 96% of COEs, 100% of POEs and 98% of FIEs), while the rest were in the service industry. The enterprises had been in operation, on average, for approximately 44 years for SOEs, 24 years for COEs, 5 years for POEs and 4 years for FIEs. The much longer history of SOEs and COEs demonstrates a strong dominance of the public sector before the post-Mao reforms, while the shorter period of operation of POEs and FIEs reflects the changes in ownership structure since the reforms. The size (based on number of employees) of the enterprise is, on average, 1331 for SOEs, 538 for COEs, 221 for POEs and 328 for FIEs. These data further reveal the dominant position of SOEs in the Chinese industry and partly explains their over-staffing problems.

The production output value per head in 1993 was approximately 68,000 yuan in SOEs (62% of them were below 60,000 yuan), 88,220 yuan in COEs, 151,500 yuan in POEs and 219,200 yuan in FIEs. These data correlate with those revealed in the four case studies where the SOE, TeleCo (Chapter 6), had the lowest output value per head while the FIE, CableCo (Chapter 9), had the highest. However, the data should only be used for reference because in the mid-1990s many enterprises still had dual accounting statements to take advantage of the dual pricing system and individually negotiated production targets and tax rates (see Section 6.4.2 for detailed explanation).

In the survey each respondent was required to indicate to what extent his/her enterprise was facing certain situations in the business environment as outlined in the questionnaire. The responses were based on a five-point, Likert-type scale ranging from (1) 'very false' to (5) 'very true'. A multivariate analysis-of-variance (MANOVA) was employed to ascertain whether the responses to the external environment varied across the four types of ownership: SOEs, COEs, POEs and FIEs. This test revealed that type of ownership did influence the responses,  $F(15, 1095) = 5.004, p < 0.001$ . One-way ANOVA tests were then conducted to ascertain which of these situations varied across type of ownership. Table 10-1 provides the mean of each situation for each type of ownership and their ANOVA values. For responses that demonstrate statistically significant differences among four types of ownership, a post-hoc test (Tukey) was then implemented to indicate where the differences existed.

Table 10-1 clearly shows that the public sector businesses (SOEs and COEs) experienced much stronger changes than the non-public sector (POEs and FIEs) did in their business environment. Regarding the rapidly changing environment (item 2),

SOEs and COEs had much higher means (4.08 and 3.71 respectively) than POEs and FIEs (3.44 and 3.64 respectively). The Tukey test reveals a significant difference between SOEs and COEs/POEs ( $p < 0.01$ ), and between SOEs and FIEs ( $p < 0.001$ ). With respect to rapidly changing government regulations (item 3), SOEs had the highest mean (3.97), while POEs had the lowest (3.13). The difference between SOEs and COEs ( $p < 0.01$ ) is significant, and also that between SOEs and POEs/FIEs ( $p < 0.001$ ). These differences show that the public sector, especially SOEs, is at the centre of economic reform. Although SOEs and COEs are experiencing rapid changes during the transition period, the reform of SOEs has become particularly urgent because of their poor performance and low return on capital yet dominant position in the Chinese economy (e.g., Rawski, 1997, Yabuki, 1995).

**Table 10-1 The business environment faced by enterprises**

Variables	SOEs m (s.d.)	COEs m (s.d.)	POEs m (s.d.)	FIEs m (s.d.)	ANOVA value
1. Marketplace competition has increased dramatically.	4.48 (.595)	4.25 (.738)	4.35 (.606)	4.48 (.666)	$F(3, 402) = 2.774^*$
2. Conditions in our business environment are rapidly changing.	4.08 (.655)	3.71 (.892)	3.44 (.964)	3.64 (.839)	$F(3, 386) = 10.510^{***}$
3. Government regulations are rapidly changing.	3.97 (.677)	3.59 (.720)	3.13 (.957)	3.35 (.967)	$F(3, 381) = 17.904^{***}$
4. The technology in our product/services is complex.	3.49 (.827)	3.32 (.901)	3.19 (.911)	3.28 (.835)	$F(3, 378) = 1.858$
5. Abundant supply of skilled people in the labour market.	2.90 (.892)	3.00 (.876)	3.19 (.981)	3.04 (.855)	$F(3, 379) < 1$

m = mean; s.d. = standard deviation; \* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$

Item 1 in Table 10-1 has the highest means across the four types of ownership when compared with other items. This provides evidence of the transition from a planned economy to a market-driven economy in China. Although COEs had the lowest mean

(4.25), the Tukey results indicate that the difference is only significant ( $p < 0.05$ ) between COEs and SOEs. COEs used to rely less on government support but often obtain contracts from SOEs, and this could partly explain why they felt less pressure from market competition. The responses to items 4 and 5 show that PIEs had the lowest mean regarding the complexity of technology (3.19) in comparison with others (3.49 for SOEs, 3.32 for COEs and 3.28 for FIEs), but the highest (3.19) regarding 'abundant supply of skilled labour' (2.90 for SOEs, 3.00 for COEs, and 3.04 for FIEs). Although these differences are statistically non-significant, they still suggest that despite the relatively low technology in POEs, they enjoyed more flexible hiring practices because of their full autonomy.

### **10.2.2 Respondents**

The characteristics of the respondents, in terms of their age, gender, occupation, education, and duration in the current job and with the current enterprise are set out in Table 10-2. The table indicates that over 69% of respondents were aged 30–49, with SOEs having much less young employees under the age of 30 (SOEs had only 9.1% compared with 20.4% for the groups of respondents in general and 38.5% for FIEs). Over two-thirds of respondents (67.7%) were male and nearly 60% of the sample is at managerial level. The educational backgrounds of the respondents were much higher than in the general population - 73.6% of all respondents had tertiary qualifications. This is because the survey was conducted in the three major cities (i.e., Tianjing, Shanghai and Nanjing), where the educational level is much higher than in other areas. For example, only 1.4% of people in China completed tertiary education in 1990, but the figure was 5.03% for Tianjing and 6.2% for Shanghai (Niu, 1992: 18-20). However, a significant number of respondents had received only a two-year tertiary

diploma (42.9% of the sample), a consequence of the break in their education during the Cultural Revolution and the government's subsequent promotion of further study to obtain the diploma (*dazhuan*) since the reform program started in the late 1970s. Compared with other types of enterprises, COEs had much fewer respondents who had a proper tertiary degree (16.7% for COEs compared with 27.4% for the respondents in general).

**Table 10-2 Sample characteristics: age, gender, occupation, education, and duration with job and enterprise (%)**

Variables	SOEs n = 212- 20#	COEs n = 83-5	POEs n = 17-9	FIEs n = 90-6	General n = 402-20
<b>Age</b>					
◆ Less than 30	9.1	26.5	31.6	38.5	20.4
◆ 30-9	38.6	33.7	31.6	35.4	36.6
◆ 40-9	39.5	30.1	21.1	21.0	32.5
◆ 50-9	12.7	8.4	10.5	4.2	9.8
◆ 60 and over	0	1	5.3	1.0	0.7
<b>Gender</b>					
◆ Female	26.0	40.0	26.3	41.1	32.3
◆ Male	74.0	60.0	73.7	58.9	67.7
<b>Occupation</b>					
◆ Managerial (supervisors and managers at different levels)	58.9	50.8	76.5	65.3	59.7
◆ Non-managerial (workers, technical and clerical staff)	41.1	49.2	23.5	34.7	40.3
<b>Highest level of education completed</b>					
◆ High school certificate or less	24.5	33.3	21.1	25.5	26.4
◆ Tertiary diploma (2- year university certificate, <i>dazhuan</i> )	42.5	46.4	42.1	42.6	43.3
◆ Tertiary degree (4- year university Bachelor's degree, <i>benke</i> )	30.2	16.7	31.6	29.8	27.4
◆ Some postgraduate education (one-year postgraduate diploma)	0.9	0	0	0	0.5
◆ Post-graduate degree (Master degree)	1.9	3.6	5.3	2.1	2.4
<b>Duration in current job (year)</b>	9.6	9.9	5.9	6.9	8.1
<b>Duration with current enterprise (year)</b>	14.3	9.1	3.1	3.5	7.5

Notes: # = number is between 212 and 220, missing data account for totals less than 440



The duration in the current job, but not necessarily in the same enterprise, was on average 9.6 years for respondents from SOEs, 9.9 years for COEs, 5.9 years for POEs and 6.9 years for FIEs. The average length of time spent with their current enterprise was 14.3 years for those from SOEs, 9.1 years for COEs, 3.1 for POEs and 3.5 for FIEs. Two important implications can be drawn from these data. First, employees working in the public sector tend to stay in one enterprise for longer because of lifetime employment and low job mobility before the reforms. Second, the length of tenure would imply that respondents had a good knowledge of their job, and of the HR policies and practices in their enterprises.

### **10.3 The HR Department**

The second part of the survey questionnaire examined the existence of a HR department, and the competency (i.e., qualifications, experience, and political background) of the HR manager. It also listed major HR activities and asked respondents to select those currently conducted by their HR department (classified into 'is now' questions) and then to indicate those they considered ideal for the future ('should be'). The respondents' perceived importance of their HR department is discussed at the end of this section.

In relation to the existence of HR department, the first question inquired whether there was a separate personnel department (or labour department or both) in control of employee personnel records, training programs, salary, and performance appraisal guidelines for the rest of the enterprise. If the answer was 'yes', respondents were asked to indicate whether this department was split into two sections to manage cadres

and workers separately, as was common practice during Mao's regime. Nearly one-third of respondents (see Table 10-3) failed to give such an indication (the total respondent numbers dropped from 406 to 290), with particularly few responses from the public sector (SOEs and COEs), perhaps because of their enterprise reform and restructuring.

Table 10-3 demonstrates that more FIEs (71%) and SOEs (70%) had a separate HR department (abbreviated to Dept. in the table) than COEs (56%) and POEs (39%). It also appears that SOEs still preferred to manage cadres and workers separately (61% for SOEs, and 25% for COEs, 13% for POEs and 6% for FIEs). The emphasis placed on the categorisation of workers and cadres by SOEs was significantly different from other enterprises [ $X^2(3, n = 290) = 68.16, p < 0.001$ ], demonstrating the continuing strength of traditional practice in the state sector. Meanwhile, the lack of such an emphasis within other ownership types provides support for the previous discussion on the tendency for this categorisation to become blurred (see section 4.1.2).

**Table 10-3 Status quo of HR department and competence of the HR manager**

Variables	SOEs	COEs	POEs	FIEs	Chi-square value
A separate HR Dept.	72% (n = 219)	56% (n = 81)	39% (n = 18)	71% (n = 88)	$X^2(6, n = 406) = 13.18^*$
One HR Dept. with two sections, one for cadres, one for workers	61% (n = 150)	25% (n = 61)	13% (n = 15)	6% (n = 64)	$X^2(3, n = 290) = 68.16^{***}$
HR manager who attained tertiary education	90% (n = 174)	84% (n = 69)	82% (n = 17)	88% (n = 72)	$X^2(6, n = 332) = 7.27$
HR manager who had similar work experience	68% (n = 167)	47% (n = 64)	75% (n = 16)	75% (n = 71)	$X^2(6, n = 318) = 17.55^{**}$
HR manager who was politically reliable	94% (n = 174)	72% (n = 69)	59% (n = 17)	85% (n = 73)	$X^2(6, n = 333) = 33.35^{***}$

\*p < 0.05; \*\* p < 0.01; \*\*\* p < 0.001

Although many enterprises surveyed had a single department to manage all employees, only two FIEs surveyed used the term 'human resource' to label this department. Others used different names such as 'personnel and administration' (*renshi xingzheng*), 'personnel and labour' (*renshi laodong*) or 'labour and wages' (*laodong gongzi*). For the sake of convenience, this study uses the title of HR for such a department.

Table 10-3 also reveals the education and experience of HR managers of the enterprises surveyed. The majority of them had tertiary education (90% for SOEs, 84% for COEs, 82% for POEs and 88% for FIEs), reflecting the emphasis on qualifications of managers by the government and enterprises since the reform. As for work experience, HR managers from POEs and FIEs were more experienced (75% for both types of enterprises) than those from SOEs (68%) and COEs (47%). This could be attributed to flexible hiring practices or less rigid labour allocation in non-public enterprises, especially given that these enterprises (POEs and FIEs) were not as bound by government restrictions on cadres as were COEs and SOEs. Moreover, POEs paid the least attention to HR managers' political reliability (i.e., membership of the Party or the Chinese Communist Youth League) (59%), while SOEs (94%) and FIEs (85%) placed high priority on HR managers' political background. Such a difference was statistically significant [ $\chi^2 = (6, n = 333) = 33.35, p < 0.001$ ]. The similarity between FIEs and SOEs was not surprising because the FIEs surveyed were all foreign joint ventures with partners from SOEs and their HR managers were recommended by the Chinese partners.

Following the questions on the HR department and manager, respondents were given a list of HR activities as presented in Table 10-4 (column 1). Some of these activities were commonly practised in the Western market economy (e.g., HR planning and job analysis) while some were often observed in China during Mao's regime (e.g., employee welfare and the organisation of political studies). The respondents were required to select those activities currently conducted by their HR department (categorised under 'is now') and then indicate those thought to be ideal ('should be'). The differences between the 'actual' and the 'ideal' may point toward the nature and direction of change in the future.

Table 10-4 shows the percentage of respondents who ticked 'is now' and 'should be' for each item. The results were categorised under each type of ownership, and chi-square values were obtained to indicate the statistical significance of the impact of ownership on these activities. As the table illustrates, a higher percentage of SOEs and FIEs conduct HR activities currently, and chi-square values indicate significant differences on all activities except items 3 (recruitment and selection), 10 (employee welfare) and 12 (contact local Labour Bureau). POEs had the lowest percentage on all the items, which supports the findings from the ElectroCo case study (see Chapter 8), where major HR activities were either informally conducted or missing.

Table 10-4 indicates that the variance of HR activities is particularly strong in relation to item 7 (training and career development) among four types of ownership. POEs and COEs currently offered much less training and career development to their employees (14% and 35% respectively) than SOEs (65%) and FIEs (57%). These differences are consistent with findings from the four case studies but more pronounced. However,

the majority of respondents (70% of SOEs, 76% of COEs, 86% of POEs and 78% of FIEs) pointed out that the HR department should perform this activity, indicating a strong desire for training and development to be increased in the future.

**Table 10-4 Activities currently ('is now') and should be conducted ('should be') by the HR department**

HR activities			SOEs	COEs	POEs	FIEs	Chi-square value
1.	Conducting HR planning	is now	53%	41%	21%	46%	$X^2(6, n = 316)$ = 23.06**
		should be	78% (n = 173)	71% (n = 62)	79% (n = 14)	64% (n = 67)	
2.	Being responsible for HR policies	is now	80%	57%	47%	72%	$X^2(6, n = 325)$ = 23.46**
		should be	60% (n = 174)	47% (n = 68)	53% (n = 15)	86% (n = 68)	
3.	Recruitment and selection	is now	85%	83%	75%	83%	$X^2(6, n = 321)$ = 11.72
		should be	57% (n = 171)	42% (n = 64)	44% (n = 16)	43% (n = 70)	
4.	Job analysis and evaluation	is now	70%	51%	38%	48%	$X^2(6, n = 308)$ = 23.66**
		should be	66% (n = 168)	66% (n = 65)	69% (n = 13)	61% (n = 62)	
5.	Performance appraisal	is now	56%	42%	43%	57%	$X^2(6, n = 305)$ = 12.29
		should be	72% (n = 167)	71% (n = 59)	64% (n = 14)	60% (n = 65)	
6.	Wage administration	is now	86%	70%	64%	75%	$X^2(6, n = 321)$ = 18.37**
		should be	55% (n = 174)	54% (n = 70)	50% (n = 14)	48% (n = 63)	
7.	Training and career development	is now	65%	35%	14%	57%	$X^2(6, n = 313)$ = 36.53***
		should be	70% (n = 170)	76% (n = 62)	86% (n = 14)	78% (n = 67)	
8.	Record keeping	is now	88%	76%	69%	80%	$X^2(6, n = 318)$ = 16.68*
		should be	50% (n = 170)	46% (n = 63)	38% (n = 16)	43% (n = 69)	
9.	Health and safety	is now	68%	59%	38%	60%	$X^2(6, n = 253)$ = 13.74*
		should be	58% (n = 124)	53% (n = 51)	62% (n = 13)	45% (n = 65)	
10.	Employee welfare, recreation and sports	is now	51%	51%	43%	73%	$X^2(6, n = 234)$ = 12.19
		should be	68% (n = 109)	59% (n = 49)	64% (n = 14)	48% (n = 62)	
11.	Organise political studies	is now	68%	54%	38%	55%	$X^2(6, n = 233)$ = 15.51*
		should be	58% (n = 139)	54% (n = 35)	63% (n = 8)	54% (n = 51)	
12.	Contact local Labour Bureau for potential labour supply	is now	74%	100%	0	73%	$X^2(6, n = 51)$ = 3.77
		should be	50% (n = 34)	0 (n = 2)	0 (n = 0)	33% (n = 15)	

\*p < 0.05; \*\* p < 0.01; \*\*\* p < 0.001

In addition to training and development, other activities were also evident on the agenda of these enterprises as they were expected to be conducted more in the future than now. These include HR planning (item 1), job analysis (item 4) (except for SOEs), and performance appraisal (item 5). Different indicators of what the trend might be were observed for item 2 (being responsible for HR policies), with SOEs and COEs showing a decline (from 80% to 60% for SOEs and from 57% to 47% for COEs) while POEs and FIEs an increase (from 47% to 53% for POEs and from 73% to 86% for FIEs). This might be attributed to the restructuring of SOEs and COEs as part of the enterprise reform, with subsequent decentralisation of some policy-making to other departments. Similarly, the HR department was also expected to conduct less recruitment and selection (item 3), which indicates a trend to delegate this HR activity to individual departments with staffing needs. This phenomenon was actually observed in CableCo (see section 9.4.2), where recruitment and selection was conducted by the relevant department with assistance from the HR department.

Furthermore, all respondents expected reduced involvement of the HR department in routine work such as wage administration (item 6) and record keeping (item 8). SOEs and FIEs demonstrated the most drastic reductions in regard to these items. For wage administration, SOEs saw a reduction from the current 86% to 55% in the future while FIEs dropped from 75% to 48%; and for record keeping, SOEs reduced from 88% to 50% and FIEs from 80% to 43%. Such movements are more comprehensible in SOEs than in FIEs because of the transition from centrally fixed wage scales to more performance-linked and unit-determined (such as department or workshop) compensation. But why do so many HR departments in FIEs currently practice these routine activities? It may be partly due to the influence of SOEs on their foreign

partners, and partly because the short history of FIEs has not allowed them sufficient time to establish a different HRM system. However, the respondents' indication of a decline in these activities suggest that HR departments might be less involved in routine work in the future.

The effect of private ownership on items 9 (health and safety) and 11 (organise political studies) is also significant as POEs paid much less attention to such activities than other types of enterprises. Therefore, while other ownership types were expecting to reduce these practices, POEs expected an increase. It is worth noting that politics is always a sensitive topic in China and people often report an emphasis on political study whether they like it or not. Respondents may have answered item 11 with caution, thereby introducing bias to the results. With respect to the last item (item 12, contact local Labour Bureau), only 12% of the total respondents answered it, with no respondents from the private sector and only two respondents from COEs. This response is understandable given the emergence of a free labour market with less reliance on the local government for labour supply. In addition, only HR managers would have clear information about this practice, which greatly limited the number of people who could answer the question. However, the results for item 12 were still valuable as they revealed the legacy of the old labour allocation system in SOEs and also in some FIEs that received assistance from the local government.

In order to measure the respondents' perception of their HR department the data regarding several facets of the department's function, practices and effectiveness were collected through the last question in this part of the survey. The responses were based on a five-point Likert scale, ranging from 1 to 5 indicating minimum to maximum

presence of each condition respectively. Table 10-5 displays the mean of each item for each type of ownership, and an ANOVA test was conducted to show the impact of ownership on the perceived effectiveness of HR department. For items that show statistically significant differences among four types of ownership, a post-hoc test (Tukey) was then conducted to indicate where the differences exist.

**Table 10-5 Perceived effectiveness of HR department**

Variables	SOEs m (s.d.)	COEs m (s.d.)	POEs m (s.d.)	FIEs m (s.d.)	ANOVA value
1. It is viewed as an important department in the enterprise.	4.09 (.614)	3.44 (.726)	3.63 (.831)	3.97 (.664)	F (3, 370) = 18.81***
2. It tends to imitate the human resource practices (e.g., in hiring, pay, etc.) used by other firms in our industry.	3.51 (.787)	3.37 (.660)	3.26 (.734)	3.40 (.931)	F (3, 366) = 1.11
3. It works closely with the senior management group on the key strategic issues facing the enterprise.	3.72 (.805)	3.55 (.814)	3.42 (.902)	3.88 (.748)	F (3, 365) = 2.89*
4. It is viewed as an effective department.	3.34 (.707)	3.04 (.854)	3.33 (.594)	3.45 (.665)	F (3, 360) = 3.99**

m = mean; s.d. = standard deviation; \*p < 0.05; \*\* p < 0.01; \*\*\* p < 0 .001

The mean responses for each item in Table 10-5 demonstrate a central tendency as nearly all data lie between 3 and 4. This might be caused by the respondents' caution in evaluating their HR department, especially considering the culture in China which discourages overt criticism and conflict (Weldon & Jehn, 1993). Considering this major limitations on the responses, the survey results here indicate only a positive attitude towards the HR department. However, the results show that ownership does have impact on all aspects except item 2. A Tukey test was conducted to ascertain which differences among the four types of ownership were statistically significant.



The Tukey test reveals a significant difference ( $p < 0.05$ ) between SOEs/FIEs and COEs/ POEs in item 1, indicating that the HR department was more highly regarded in SOEs/ FIEs. The test also indicates that the HR department works more closely with the senior management group in FIEs than in POEs (item 3) ( $p < 0.05$ ). This result supports the finding from the case of a POE, ElectroCo (Chapter 8), where the management style was observed to be quite paternalistic. There is another significant difference ( $p < 0.05$ ) between SOEs/FIEs and COEs in their view of the effectiveness of the HR department. While the HR department in COEs and POEs was regarded as less important than in SOEs and FIEs, it was also deemed less effective in COEs but not in POEs.

#### **10.4 Major HR Activities**

This section focuses on seven HR activities, which are regarded as essential practices in Western HRM (Schuler, et al. 1992). These activities include HR planning, job analysis, hiring practices, performance appraisal, compensation and welfare, training and development and labour relations. Survey results for each activity are provided along with analysis and discussion to address the research questions set out at the beginning of this chapter.

##### **10.4.1 HR Planning**

The survey questions cover three aspects of human resource (HR) planning, i.e., what, who and why. 'What' refers to the type of HR planning adopted by the enterprise, namely, whether it is short-term (1-2 years) or long-term (2-5 years) (item 1 in Table 10-6). 'Who' covers the people involved in HR planning, including the general

manager, department managers, line managers and HR manager of an enterprise (items 2 to 5 in Table 10-6). 'Why' tries to find out the reasons for HR planning, that is, whether planning is part of the business strategy, used for staffing needs, or as required by the government (items 6 to 8 in Table 10-6).

### 10-6 Human Resource (HR) planning

HR planning	SOEs	COEs	POEs	FIEs	Chi-square Value
1. The HR planning is short term based (1-2 years).	67% (n = 100)	56% (n = 18)	71% (n = 7)	81% (n = 32)	$X^2$ (3, n = 157) = 3.954
2. General Manager is involved in HR planning.	48% (n = 172)	78% (n = 69)	47% (n = 17)	40% (n = 77)	$X^2$ (3, n = 335) = 24.775***
3. Department managers are involved in HR planning.	9% (n = 172)	7% (n = 68)	29% (n = 17)	47% (n = 77)	$X^2$ (3, n = 334) = 57.212***
4. Line managers are involved in HR planning.	8% (n = 172)	7% (n = 69)	12% (n = 17)	6% (n = 77)	$X^2$ (3, n = 335) = .613
5. HR manager is involved in HR planning.	62% (n = 172)	29% (n = 68)	29% (n = 17)	60% (n = 77)	$X^2$ (3, n = 334) = 35.607***
6. Planning as part of the whole enterprise's business strategy.	61% (n = 171)	49% (n = 67)	35% (n = 17)	59% (n = 74)	$X^2$ (3, n = 329) = 6.099
7. Planning for enterprise's own staffing needs.	38% (n = 171)	51% (n = 67)	47% (n = 17)	51% (n = 69)	$X^2$ (3, n = 329) = 5.411
8. Planning as required by the local government (e.g., Labour Bureau).	16% (n = 171)	15% (n = 67)	12% (n = 17)	7% (n = 74)	$X^2$ (3, n = 329) = 4.265

\*\*\*  $p < 0.001$

The results presented in Table 10-6 reveal that most enterprises only had short-term HR planning (ranging from 56% to 81%), with the type of ownership having little impact. The short-term orientation could be attributed to the continuing transformation of the Chinese economic system, which has created uncertainties for all enterprises regardless of ownership. It is worth noting that only one-third of respondents (n = 157) answered this question, perhaps because only those involved in planning would know the answer as details of the planning process were seldom communicated to general employees.

Table 10-6 indicates that the type of ownership does have an impact on the people involved in HR planning. While more general managers participated in HR planning in COEs (78%) than other types of enterprises (48% of SOEs, 47% of POEs and 40% of FIEs), more HR managers were involved in such planning in SOEs (62%) and FIEs (60%) than in COEs and POEs (both 29%). The greater involvement of HR managers in HR planning is consistent with the previous finding that more SOEs and FIEs conduct this activity (see Table 10-4). The level of participation of department managers in planning in FIEs (47%) is significantly higher than in other types of enterprises (9% in SOEs, 7% in COEs and 29% in POEs). This might partly explain why the HR department in FIEs was viewed as more effective than those in other types of enterprises (see Table 10-5). A common pattern observed across the four types of enterprises is that few line managers participated in the planning, indicating that if HR planning was practised, it was conducted mainly by the HR manager or senior managers.

HR planning was done principally as part of the business strategy and for staffing needs ((items 6 and 7 in Table 10-6). It appears that more SOEs and FIEs used HR planning for business strategy (61% and 59% respectively) than COEs (49%) and POEs (35%), and SOEs used this activity much less for their staffing needs (38%) than other enterprises (51% for COEs and FIEs, and 47% for POEs). Although the impact of ownership on these differences is not statistically significant, it still indicates that more SOEs and FIEs use HR planning as part of their business strategy. It also suggests that SOEs were still affected by the old labour allocation practice as they used planning much less than others for staffing needs. Furthermore, the results indicate that FIEs were subjected to less stringent HR planning regulations by the local

government than other types of enterprises (7% for FIEs and 12-16% for other enterprises), reflecting government's limited influence on FIEs and its diminishing role in other local enterprises (see item 8 in Table 10-6).

#### **10.4.2 Job Analysis**

The survey questions on job analysis are divided into three parts. The first explored the existence of job analysis, and involvement of the HR manager. The second part examined the factors included in job analysis. The factors include items often expected in Western HRM, such as employee's qualifications, skills, physical health and tasks to be carried out, and also some items specific to the Chinese context, such as the description of tools and equipment to be used, product standard and production quotas. The last part focused on the different uses of job analysis.

As shown in Table 10-7, the impact of ownership on job analysis is significant in items 1, 2, 3 and 9 ( $p < 0.05$ ). Item 1 indicates that fewer COEs (27%) conduct written job analysis than SOEs (62%), FIEs (57%) and POEs (50%). The result is consistent with previous findings that COEs had less formal HR practices than SOEs and FIEs. However, it appeared that more HR managers in COEs (81%) and SOEs (76%) were involved in job analysis (item 2). The results should be interpreted cautiously as fewer respondents answered this question (186 in item 2 compared to 344 in item 1), which might indicate employees' ignorance regarding HR manager's involvement in the activity. The stronger emphasis placed on employee's qualifications (item 3) by FIEs (70%) and SOEs (65%), compared to 43% in COEs and 47% in POEs, could be attributed to the more advanced technology used in FIEs and SOEs.

**Table 10-7 Job analysis: existence, HR manager’s involvement and factors included**

Job analysis (variables)	SOEs	COEs	POEs	FIEs	Chi-square value
1. Conduct written job analysis	62% (n = 176)	27% (n = 71)	50% (n = 16)	57% (n = 81)	$X^2(3, n = 344) = 25.779^{***}$
2. HR manager was involved in the job analysis.	76% (n = 109)	81% (n = 21)	50% (n = 8)	58% (n = 48)	$X^2(9, n = 186) = 20.255^*$
3. Factors to be included - employee's qualifications	65% (n = 170)	43% (n = 69)	47% (n = 17)	70% (n = 76)	$X^2(3, n = 332) = 14.026^{**}$
4. Factors to be included - employee's skills	94% (n = 169)	94% (n = 69)	88% (n = 17)	90% (n = 77)	$X^2(3, n = 332) = 2.313$
5. Factors to be included - employee's physical situation	54% (n = 169)	49% (n = 69)	24% (n = 17)	45% (n = 76)	$X^2(3, n = 331) = 6.547$
6. Factors to be included - tools and equipment to be used	49% (n = 164)	36% (n = 61)	31% (n = 16)	45% (n = 73)	$X^2(3, n = 314) = 4.469$
7. Factors to be included - tasks to be carried out	75% (n = 163)	64% (n = 61)	88% (n = 16)	82% (n = 73)	$X^2(3, n = 313) = 7.402$
8. Factors to be included - product standard	63% (n = 163)	74% (n = 61)	44% (n = 16)	60% (n = 73)	$X^2(3, n = 313) = 5.808$
9. Factors to be included - production quotas (e.g., number of products to be produced per hour/shift)	72% (n = 151)	74% (n = 61)	50% (n = 16)	56% (n = 73)	$X^2(3, n = 301) = 9.105^*$

\*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

Table 10-7 demonstrates that item 9 (production quotas) was more prevalent in SOEs (72%) and COEs (74%) than in POEs (50%) and FIEs (56%), which might be explained by the fact that more POEs and FIEs had adopted performance-related bonuses and thus fixed production quotas became unnecessary. This finding is consistent with the case study of a POE, ElectroCo (see Chapter 8), where bonuses were linked to the work outcomes rather than to pre-set quotas.

Furthermore, Table 10-7 illustrates that most enterprises have incorporated employee’s skills (item 4) into job analysis (ranging from 88% to 94%), and the majority of them (from 64% to 88%) also specified the tasks to be carried out (item 7). This could be the result of the introduction and implementation of the management

responsibility system during the mid- 1980s and 1990s when enterprises were urged to improve their efficiency. It also substantiates the trend of breaking the iron rice bowls in enterprises, especially in the state sector.

How do the enterprises use their job analysis? The questionnaire listed six major uses of job analysis as shown in Table 10-8. The first five uses in Table 10-8 are often observed in Western HRM, whereas the last one (i.e., item 6 - for determining position salary) was typical in the Chinese setting after the position-and-skills wage system was introduced (see Section 4.4.2).

### 10-8 Uses of job analysis

Uses of job analysis (variables)			SOEs	COEs	POEs	FIEs	Chi-square value
1.	Classify job responsibility & authority	is now should be	57% 83% (n = 179)	55% 78% (n = 67)	40% 56% (n = 16)	61% 85% (n = 72)	$X^2$ (6, n = 334) = 15.02*
2.	For HR planning	is now should be	33% 84% (n = 159)	38% 75% (n = 53)	23% 77% (n = 13)	43% 67% (n = 60)	$X^2$ (6, n = 285) = 11.29
3.	For recruitment and selection	is now should be	63% 70% (n = 163)	58% 69% (n = 55)	47% 60% (n = 15)	59% 62% (n = 68)	$X^2$ (6, n = 301) = 9.53
4.	For performance standards	is now should be	67% 69% (n = 168)	49% 67% (n = 65)	44% 63% (n = 13)	58% 67% (n = 67)	$X^2$ (6, n = 312) = 15.13*
5.	For job evaluation	is now should be	64% 71% (n = 159)	46% 70% (n = 46)	33% 73% (n = 15)	44% 69% (n = 62)	$X^2$ (6, n = 282) = 21.04**
6.	For determining position salary	is now should be	77% 63% (n = 168)	52% 73% (n = 63)	53% 53% (n = 13)	60% 63% (n = 68)	$X^2$ (6, n = 312) = 21.30**

\*  $p < 0.05$ ; \*\*  $p < 0.01$

Table 10-8 compares the current uses of job analysis (is now) to its ideal use in the future (should be). The results are grouped under the four types of ownership. For items 1, 4, 5 and 6 in Table 10-8, the impact of ownership was statistically significant

( $p < 0.05$ ). Currently more FIEs (61%) and SOEs (57%) used job analysis for the classification of job responsibility and authority (item 1) than COEs (55%) and POEs (40%). This particular use is expected to increase more in other types of enterprises than in POEs, with FIEs expecting to increase this use to 85%, SOEs to 83%, COEs 78%, while POEs only to 56%. This reflects the more informal nature of management practices in POEs. Job analysis is currently used more for setting up performance standards (item 4) and determining position salary (item 6) in SOEs (67% and 77% respectively) and FIEs (58% and 60%) than COEs (49% and 52%) and POEs (44% and 53%). This may be because HR practices were conducted more in SOEs and FIEs. With respect to job evaluation (item 5), more SOEs (64%) used job analysis for this purpose than others did, perhaps because more SOEs used positional allowances in their wage packages than others (see Section 10.4.5).

A wide variation was observed in the responses to item 6 in Table 10-8. While COEs preferred to increase the use of job analysis in determining position salary (from 52% to 73%), SOEs showed a decline in this aspect (from 77% to 63%), POEs did not expect any change (53% for both 'is now' and 'should be'), and FIEs had only a marginal increase (from 60% to 63%). The range of responses could be a consequence of wage reform when different kinds of wage packages were on trial. The position-and-skills wage system introduced by the government in the mid-1990s was adopted mostly by state enterprises, especially SOEs. Government departments either supplied guidelines to set up position wage scales or simply dictated such scales to enterprises, as happened at TeleCo, a SOE (see Section 6.4.4). This could be the reason why SOEs tend to use job analysis less frequently to determine position salaries than do the other types of enterprises.

Regardless of the ownership type of their enterprises, respondents felt that job analysis should be used more for all purposes except for determining position salary (item 6 in Table 10-8). The finding is similar to the results presented in Table 10-4 (see item 4). This response indicates a newly perceived importance for job analysis, which is supported by observations from the four case studies. In each of the four case enterprises, the lack of job analysis or job description was identified as a major problem that needed to be addressed by the enterprise in the near future.

#### **10.4.3 Hiring Practices**

The survey questions in this section covered three aspects. The first was selection criteria for hiring. Respondents indicated to what extent the 13 selection criteria (labelled from H1 to H13) currently influence hiring decisions (classified into 'is now' questions) and should influence such decisions in the future ('should be'). The responses were measured by a five-point, Likert-type scale ranging from (1) 'not at all' to (5) 'to a very great extent'. The second aspect was the respondents' perception of the effectiveness of hiring practices in terms of employee performance, job satisfaction and organisational operation. The final aspect focused on internal and external sources of labour for different types of enterprises.

Because there were 13 selection criteria, factor analysis was used to identify clusters of related items. This enabled criteria belonging to the same construct or concept to be combined into a single scale for analysis rather than being examined individually. As an initial step, the data were inspected to eliminate multivariate outliers that corresponded to participants who provided a highly irregular pattern of responses. To detect the presence of multivariate outliers, Mahalanobis distances were calculated for



each respondent. These distances were derived from all the items utilised in the factor analysis. Nine multivariate outliers were uncovered and deleted from further analyses to ensure that all variables approximated a normal distribution.

During the analysis, the principal-axis factoring extraction method was employed to uncover sets of related items (Cattell, 1978), followed by a varimax rotation to establish independent factors (Tabachnick & Fidell, 1996). Items associated with hiring practices were subjected to two factor analyses. The first utilised the responses that related to current practices ('is now') and the second used the responses that related to ideal practices in the future ('should be'). Only factors that emerged from both procedures were employed in further analysis. Each of these analyses uncovered three factors. Two of these factors were virtually identical in both the 'is now' and 'should be' analyses. The third factor differed between the 'is now' and 'should be' analyses and was thus excluded. The items included in the third factor (i.e., H3, H4 and H5) are analysed separately later on.

The factor loadings that correspond to the first factor are provided in Table 10-9. In this table, the first two columns specify the variables that correlated significantly with the first factor. The third column specifies the factor loadings (i.e. correlations) associated with the current practices ('is now'). The final column specifies the factor loadings associated with ideal practices ('should be'). Apart from one disparity (H10 - future co-workers' opinions about whether the person should be hired), current and ideal practices generated a similar factor structure, thereby substantiating the reliability of this factor. As these items relate to job-specific information including personal ability and skills, the first factor is termed 'job-specific information'.

**Table 10-9 Factor loadings associated with the first factor - job-specific information**

	Hiring Practice	is now	should be
H1	A person's ability to satisfy technical requirements of the job	0.65	0.50
H2	A personal interview	0.50	0.46
H6	An employment test in which the person needs to demonstrate their skills	0.59	0.69
H7	Proven work experience in a similar job	0.70	0.58
H8	A person's potential to do a good job, even if the person is not that good initially	0.56	0.58
H9	The person's ability to conform to the enterprise's values and ways of doing things	0.33	0.34
H10	Future co-workers' opinions about whether the person should be hired	0.37	#
Percentage of variance accounted for by the factor		25%	27%

Note: # This indicates those excluded items that correspond to factor loadings below 0.32 (10% of variance).

The second factor is indicated in Table 10-10. Again, the pattern of factor loadings does not differ between current practices ('is now') and ideal practices ('should be'). These items relate to external sources of information, and especially archival biographical data. Therefore, the second factor is called 'archival biographical data'.

**Table 10-10 Factor loadings associated with the second factor - archival biographical data**

	Hiring Practice	is now	should be
H10	Future co-workers' opinions about whether the person should be hired;	0.33	0.34
H11	Personal qualifications;	0.38	0.31
H12	Political background;	0.88	0.76
H13	Personal file records	0.70	0.68
Percentage of variance accounted for by the factor		5%	4%

After uncovering two factors, item-averaging was employed to generate a single score for each factor. This method, which provides effective scores and also permits an analysis of reliability, involves averaging the appropriate responses for each subject (see Gorsuch, 1983; Wackwitz & Horn, 1971). Accordingly, four scales were constructed and each corresponded to the average score on the items that related to a particular factor. These four scales are presented in Table 10-11.

**Table 10-11 Summary of the four scales associated with hiring practices**

Name of scale	Corresponding items	Interpretation of high scores	Cronbach's Alpha
Job-specific information (is now)	'is now' H1- H2 H6- H9	Job-specific information including personal ability and skills are regarded as vital.	0.75
(should be)	'should be' H1- H2 H6- H9	Job-specific information including personal ability and skills should be regarded as vital.	0.85
Archival biographical data (is now)	'is now' H10- H13	External sources of information including archival biographical data are often invoked.	0.70
(should be)	'should be' H10- H13	External sources of information including archival biographical data should be invoked.	0.70

In Table 10-11, the first column provides a label for each scale, the second column lists the items that correspond to each scale, the third column provides an interpretation of high scores, and the final column reports the value of Cronbach's (1951) alpha that corresponds to each scale. From this table it can be seen that all of the estimates of inter-item reliability exceed or approximate 0.70, which is considered adequate to conclude internal consistency (Nunnally, 1978) and the reliability can be regarded as acceptable.

The mean and standard deviation for each of the four scales in Table 10-11 are listed in Table 10-12. Two paired-sample t-tests were conducted to ascertain whether or not

current practices ('is now') depart significantly from ideal practices ('should be'). The first t-test corresponded to job-specific information, the second to archival biographical data. The first paired-sample t-test reveals a clear preference for increasing the emphasis on job-specific information from the current relatively high level (means increased from current 3.67 to 3.99 in the future). This difference is statistically significant [ $t(430) = 15.54, p < 0.001$ ]. As job-specific information includes both personal competency (ability and skills) and selection methods, the emphasis placed on this factor has at least indicated a move away from the traditional labour allocation practice, which was "often based on political orientation rather than on merit" as observed by Ding and colleagues (1997: 596).

**Table 10-12 Mean and standard deviations (S.D.) pertaining to each scale**

Items	Mean	S.D.	T - test
Job-specific information (is now)	3.67	0.43	$t(430) = 15.54^{***}$
Job-specific information (should be)	3.99	0.37	
Archival biographical data (is now)	3.13	0.55	$t(430) = 5.34^{***}$
Archival biographical data (should be)	3.27	0.50	

\*\*\*  $p < 0.001$

With respect to selection methods, some researchers have noted that the employment test is more important than a personal interview in hiring practices in China (Huo, Huang & Napier, 1999). In order to examine this difference, items H2 (personal interview) and H6 (employment test) were subject to further paired-sample t-tests. The results indicate that the employment test has higher means in both current and ideal situations ['is now' = 3.64, and 'should be' = 3.96,  $t(278) = 6.63, p < 0.001$ ] than the personal interview ['is now' = 3.39, and 'should be' = 3.72,  $t(281) = 6.84, p < 0.001$ ]. This finding is consistent with many researchers' observations. For example, both Liao

(1991) and Zhao (1995) have noted that employment tests in a written and/or practical form (e.g. to operate a machine) are still regarded as an effective recruiting method in China. The employment test was reintroduced to the workplace in the early 1980s to help abolish the prevailing tradition of “inheritance of jobs” or “internal replacing” (*dingti*) - variously described as “the occupational inheritance of jobs from parents to offspring” (Warner, 1996b: 32) or “replacement of retiring workers by their sons, daughters and other relatives” (Korzec, 1988: 137). With implementation of labour contracts and the acceleration of enterprise reform, selecting the right people for the job became more important and could be the main reason for a greater emphasis on the employment test in current and future hiring practices.

The relatively low means for the personal interview in both the current (‘is now’) and ideal situations (‘should be’) could be attributed to the inadequacy of complementary hiring practices such as job analysis and training of interviewers, and concerns about the objectivity of personal interviews when personal relations (*guanxi*) play such an important role in Chinese society (Bian, 1994; Luo & Chen, 1997; Xin & Pearce, 1996). According to the survey results, for example, many enterprises did not have formal job analysis (enterprises claiming to have such a practice range from 27% to 62%, see Table 10-7). Rynes (1993) has questioned the effectiveness of the employment interview, as practised in Western market economies, due to the superficial, shoot-from-the-hip interview questions in many cases. Similarly, Graves and Karren (1996) have argued that interview decisions would be inappropriate without selection criteria based on job analysis, training of interviewers and evaluation of interview outcomes on the basis of job performance. As Chinese industrial

enterprises are still at an early stage in terms of HRM (Warner, 1995), the use of personal interviews needs to be developed along with other HR practices.

The second paired-sample t-test in Table 10-12 shows that the current utilisation of external sources of information, especially archival biographic data, was at a lower level than respondents expected in the future ('is now' = 3.13 and 'should be' = 3.27). This difference is also statistically significant [ $t(430) = 5.34, p < 0.001$ ]. Since archival biographic data included information relevant to traditional hiring practices under Mao's regime, such as 'political background' (H12) and 'personal file records' (H13), question arises as to whether these items are still being emphasised and whether they take precedence over the other two factors (i.e. H10 - 'future co-workers' opinion' and H11 - 'personal qualifications'). In order to answer these questions, the four items were analysed individually by using paired-sample t-tests with the results displayed in Table 10-13.

Table 10-13 indicates a clear tendency to increase the use of items H10 ('future co-workers' opinion') and H11 ('personal qualifications') in future hiring practices (means increase from current 2.89 and 3.37 to 3.19 and 3.59 respectively in the future). These differences are statistically significant [ $t(263) = 5.68, p < 0.001$  and  $t(281) = 4.66, p < 0.001$ , respectively]. The remaining items in the table, i.e., H12 ('political background') and H13 ('personal file records'), did not have statistically significant differences between their current and future practices [ $t(268) = 0.15, p > 0.5$  and  $t(270) = 1.54, p > 0.1$ ]. The finding of relatively less emphasis on political background and personal file records is supported by Walder's (1995) observation that

China’s economic reforms have facilitated a move away from the Maoist ‘politics in command’ to post-reform ‘economics in command’.

**Table 10-13 The extent to which external sources of information and archival biographic data influence hiring decisions**

Variables		Means		T-test
		is now	should be	
H10	Future co-workers’ opinions about whether the person should be hired (n = 263)#	2.89## (.882)	3.19 (.914)	5.68***
H11	Personal qualifications (n = 281)	3.37 (.797)	3.59 (.741)	4.66***
H12	Political background (n = 268)	2.93 (.951)	2.94 (.940)	0.15
H13	Personal file records (n = 270)	3.15 (.925)	3.23 (.875)	1.54

Note: # number of pairs; ## standard deviations are shown in parentheses;  
 \*\*\* p < 0.001

The items that did not belong to either of the two factors were also investigated. These items, as presented in Table 10-14, include H3 (‘a person’s ability to get along well with current workers’), H4 (‘having the right connections, e.g., school, family, friends, region, government, etc.’), and H5 (‘the company’s belief that the person will stay with the company for 5 years or longer’). Table 10-14 shows that, except for item H4 (‘right connections’), there is a preference for greater priority on items H3 and H5 in the ideal situation (‘should be’). While H3 is related more to the Chinese culture which promotes working in harmony and keeping good work relationships, H5 has indicated an intention to improve the effectiveness of hiring practices by employing people who will stay with the enterprise in the long run. The aim to maximise return on investment in hiring practices is regarded as a new concept in China's HR practices, because in the

traditional labour allocation system it was simply impossible to improve hiring effectiveness.

**Table 10-14 The extent to which items H3, H4 and H5 influence hiring decisions**

Variables		Means		T-test
		is now	should be	
H3	A person's ability to get along well with current workers (n = 279)#	3.47## (.698)	3.78 (.690)	6.41***
H4	Having the right connections (e.g., school, family, friends, region, government, etc.) (n = 282)	3.38 (.906)	3.31 (.924)	1.24
H5	The company's belief that the person will stay with the company for 5 years or longer (n = 268)	3.23 (.850)	3.51 (.855)	5.06***

Note: # number of pairs; ## standard deviations are shown in parentheses;  
\*\*\* p < .001

Means of item H4 in Table 10-14 show a reduced emphasis on the use of one's connections in hiring ('is now' = 3.38, and 'should be' = 3.31), but this difference is not statistically significant [ $t(282) = 1.24, p > 0.1$ ]. While having the right connection (*guanxi*) is highly regarded and claimed as crucial to getting a job in China (Bian, 1994), a decline in the mean of this item may indicate respondents' resentment towards such a practice. It is important to note that this was one of the few items where respondents expressed the need for a reduction in the future.

While survey results indicate a salient trend to increase the use of most of these selection criteria in the future, it needs to be asked whether the trend is similar in enterprises with different types of ownership. In order to explore the impact of ownership on the choice of those selection criteria, further analysis was conducted.



Table 10-15 displays the mean on each scale for each type of ownership and their ANOVA values.

**Table 10-15 Impact of ownership on two major factors of hiring decisions**

Variables	SOEs m (s.d.)	COEs m (s.d.)	POEs m (s.d.)	FIEs m (s.d.)	ANOVA value
Job-specific					
information	3.63	3.79	3.84	3.76	F (3, 379) =
(is now)	(.511)	(.463)	(.546)	(.514)	2.79
(should be)	3.95	4.04	4.20	3.96	F (3, 326) =
	(.482)	(.476)	(.556)	(.523)	1.36
Archival biographical					
data	3.22	2.91	3.17	3.27	F (3, 362) =
(is now)	(.630)	(.644)	(.711)	(.683)	4.71 *
(should be)	3.37	3.08	3.49	3.23	F (3, 331) =
	(.632)	(.777)	(.761)	(.566)	3.17*

m = mean; s.d. = standard deviation; \* p < 0.05

The mean scores in Table 10-15 indicates that respondents in all types of enterprises expected increased use of selection criteria in future hiring than in their current practices, except for the use of archival biographical data by FIEs (means reduced from the current 3.27 to 3.23 in the 'should be' situation). A MANOVA test was conducted to ascertain whether or not the scales varied across the four types of ownership. This procedure revealed that the type of ownership did influence the scales [F (12, 619) = 2.31, p < 0.01]. A series of ANOVAs were then implemented. The tests disclosed that neither job-specific information in the current ('is now') nor future ('should be') situations varied with the type of ownership [F (3, 379) = 2.79, p > 0.05 and F (3, 362) = 1.36, p > 0.05, respectively]. In contrast, both archival biographical data at the present and in the future depended on the type of ownership [F (3, 362) = 4.71, p < 0.05 and F (3, 311) = 3.17, p < 0.05, respectively].

To further investigate this issue, one-way ANOVAs together with Tukey tests ( $\alpha = 0.05$ ) were employed. The results show that SOEs and FIEs currently used 'political background' (H12) and 'personal file records' (H13) more than COEs and POEs [ $F(3, 341) = 3.26, p < 0.05$  and  $F(3, 338) = 6.49, p < 0.001$ , respectively]. Results from the same test also indicate that SOEs will continue to emphasise the use of 'personal file records' in their future hiring practices more than other types of ownership [ $F(3, 280) = 2.96, p < 0.05$ ]. These results demonstrate that in SOEs, a person's political background was still regarded as being more important than in other types of enterprises.

It is worth mentioning that other researchers (e.g., Child, 1993; Perkins, 1996) have noted that FIEs are mainly formed with state enterprises, and employees from the Chinese partner usually hold the position of HR manager. According to our survey results, 73 HR managers of FIEs surveyed were Chinese, and 62 of them were Party members. Wilpert and Scharpf (1995: 95) have also pointed out that "many representatives of Chinese mother companies still perceive the joint venture as part and parcel of the mother company" due to the legacy of traditional hierarchical command. This explains why some FIEs still evaluate political background in their current hiring process. However, the Tukey test indicated that political background would receive less emphasis in FIEs in their future hiring practices, which explained why FIEs would use less archival biographical data ('should be' = 3.23) than their current practice ('is now' = 3.27, see Table 10-15).

The second aspect of this section is to examine the perceived effectiveness of hiring practices. This part of the survey consisted of three questions relating to the extent to

which various hiring practices are perceived to be effective. The respondents were asked whether hiring practices, 1) help the enterprise to have high-performance employees; 2) help increase job satisfaction; and 3) make a positive contribution to the overall effectiveness of the enterprise. The three measures of effectiveness were rated on a five-point Likert scale. They were then correlated with the four scales representing hiring criteria. The Spearman rank-order procedure was utilised to ascertain these correlations. The procedure is suitable given that the data are measured on an ordinal scale. The alpha level was set at 0.01 to partly counteract type I errors, that is, incorrectly rejecting the null hypothesis (see Table 10-16).

**Table 10-16 Spearman rank-order correlations between the three measures of effectiveness and the four scales of hiring criteria**

Variables	Increasing employees' performance	Increasing job satisfaction	Overall effectiveness of enterprise
Job-specific information (is now)	0.29**	0.21**	0.30**
(should be)	0.11	0.10	0.07
Archival biographical data (is now)	0.07	0.11	0.13
(should be)	0.11	0.10	0.09

\*\* p < 0.01

Table 10-16 shows these correlations and indicates that only the current job-specific information was significantly correlated with the three measures of effectiveness. In other words, enterprises that emphasised job-specific information including personal ability and skills in their current hiring practices tended to produce high-performing, satisfied employees who made a positive contribution to the overall efficiency of their enterprises. None of the other correlations attained significance. One explanation for this may be that hiring practices are still undergoing transition with future uncertainty on account of the enterprise reform. Respondents may be uncertain about issues such

as the extent to which enterprises may be able to retrench their redundant employees without considering the social or political consequences and the establishment of a national social security system to release enterprises from the necessity of running mini-societies.

The results in Table 10-16 are partly consistent with our previous finding that external sources of information, especially archival data, receive less emphasis in selection than job-specific information such as personal ability and skills. However, the limitation of this part of the survey is the lack of objective measure of enterprise performance. It is possible that a hiring practice believed to be crucial by respondents may not necessarily be truly conducive to organisational effectiveness using objective criteria (Huo, Sakano, Tsai & Von Glinow, 1996).

The final aspect of this section investigates internal and external sources of labour for enterprises with different types of ownership. Table 10-17 shows that all types of enterprises used the local labour market for recruitment even though this market was still nascent. The internal HR databank seemed new to many enterprises and on average only a quarter of them used such information for hiring. By contrast, internal transfer was a popular method for most enterprises. However, FIEs and POEs used advertising (75% and 64%) more substantially than SOEs and COEs (25% and 38%) [ $X^2(3, n = 353) = 61.09, p < 0.001$ ]. Both FIEs and POEs had much fewer employees assigned by the government than SOEs and COEs (20% and 32% compared to 64% and 40%,  $X^2(3, n = 352) = 46.02, p < 0.001$ ).

**Table 10-17 Labour sources in China’s industrial enterprises**

Labour sources (variables)	SOEs	COEs	POEs	FIEs	Chi-square value
Local labour market	54% (n = 180)	64% (n = 72)	41% (n = 22)	57% (n = 79)	$X^2(3, n = 353)$ = 4.06
Advertising	25% (n = 180)	38% (n = 72)	64% (n = 22)	75% (n = 79)	$X^2(3, n = 353)$ = 61.09***
Government allocation	64% (n = 179)	40% (n = 72)	32% (n = 22)	20% (n = 79)	$X^2(3, n = 352)$ = 46.02***
Internal HR data bank	29% (n = 177)	17% (n = 58)	22% (n = 18)	25% (n = 65)	$X^2(3, n = 318)$ = 3.24
Internal transfer	75% (n = 177)	72% (n = 58)	61% (n = 18)	85% (n = 65)	$X^2(3, n = 318)$ = 5.27
Inheritance of jobs	24% (n = 177)	19% (n = 58)	17% (n = 18)	18% (n = 65)	$X^2(3, n = 318)$ = 1.626

\*\*\* P < 0.001

The results presented in Table 10-17 strongly indicate that government allocation of labour to enterprises, especially to SOEs and COEs, has not come to an end and this finding supports Feng’s (1996) claim that centralised labour allocation was still in practice after more than a decade of enterprise reforms. Another finding worth noting is that, while the literature indicates that the practice of inheritance of jobs (*dingti*) has been phased out since the introduction of employment tests and labour contracts (Warner, 1996b; Zhao, 1995), our survey results have shown that such a practice still existed in the four types of enterprises. FIEs and POEs had less recruitment through the inheritance of jobs (18% and 17% compared to 24% and 19% in SOEs and COEs) although, the differences are not statistically significant.

To summarise, this section has examined the three aspects of hiring practices in industrial enterprises after Mao’s regime. The survey results indicate that with the acceleration of economic reforms, hiring practices are gradually changing from a politicised and highly centralised labour allocation process to an economy-focused and

market-directed recruitment and selection process. The research findings on hiring practices include three major points. The first is an emphasis placed by enterprises on personal competency as a major selection criterion rather than political background and personal file information. The second is the weight given to employment tests rather than personal interviews as a selection tool. Finally, the external labour market and other selection methods such as advertising have been used by some enterprises, especially FIEs.

With respect to the impact of ownership on hiring practices, the research reveals that compared with other types of ownership, SOEs have continued with more traditional employment practices, such as adding weight to political background in their selection process. In addition, the government's influence on recruitment and selection has not vanished, but its span of control has gradually diminished. Enterprises, especially FOEs and POEs, have more autonomy to select their own employees and receive fewer government-allocated employees as indicated by the survey results. While hiring practices are being reformed, the practice of performance appraisal is also in transition, which is discussed in the following section.

#### **10.4.4 Performance Appraisal**

This section details and analyses the survey results on the practice of performance appraisal in the industrial enterprises. It contains three parts. The first examines whether the enterprise has standardised criteria and methods for appraisal, how frequently it is conducted, who conducts the appraisal and what methods are used. The second part focuses on the purposes for which performance appraisal is currently being used ('is now') and ought to be used ('should be') by the enterprise. Finally, the

respondents were required to indicate how they perceived the effectiveness of performance appraisal in terms of employee performance, job satisfaction, and organisational operation. Table 10-18 displays the results from the first part.

**Table 10-18 Performance appraisal**

Performance Appraisal (variables)	SOEs	COEs	POEs	FIEs	Chi-square Value
1. Enterprise has standardised criteria and methods of the appraisal	67% (n = 179)	49% (n = 71)	56% (n = 18)	68% (n = 78)	$X^2(3, n = 346) = 8.607^*$
2. The frequency of the appraisal:					
◆ Once a year	73%	74%	90%	78%	$X^2(6, n = 204) = 3.819$
◆ Twice a year	17%	13%	0	10%	
◆ Monthly	10% (n = 113)	13% (n = 31)	10% (n = 10)	12% (n = 50)	
3. Who conducts the appraisal?					
◆ Department managers	84% (n = 169)	71% (n = 59)	94% (n = 17)	84% (n = 70)	$X^2(3, n = 315) = 7.141$
◆ Line managers	37% (n = 170)	54% (n = 59)	24% (n = 17)	39% (n = 70)	$X^2(3, n = 316) = 7.583$
◆ Peer group	15% (n = 170)	12% (n = 59)	0 (n = 17)	9% (n = 70)	$X^2(3, n = 316) = 4.269$
◆ Individuals to be evaluated	9% (n = 170)	3% (n = 59)	0 (n = 17)	4% (n = 70)	$X^2(3, n = 316) = 4.286$
4. Methods					
◆ Self evaluation by using a standardised form	51% (n = 158)	38% (n = 56)	41% (n = 17)	49% (n = 68)	$X^2(3, n = 299) = 3.157$
◆ Discussion within the work group	21% (n = 157)	27% (n = 56)	18% (n = 17)	9% (n = 68)	$X^2(3, n = 298) = 7.178$
◆ Supervisor's comments	57% (n = 157)	64% (n = 56)	65% (n = 17)	63% (n = 68)	$X^2(3, n = 298) = 1.600$

Note: Respondents may have provided more than one answer, \*  $p < 0.05$

It is evident in Table 10-18 that FIEs and SOEs (68% and 67% respectively) use more formal types of appraisal. This finding is similar to the previous results, namely, more SOEs and FIEs have HR practices. For SOEs, this reflects the emphasis placed on performance appraisal by the state and the level of central government's control over state enterprises. This is the situation especially for large and medium-sized enterprises

which have a fixed set of personnel practices such as performance appraisal (Zhao, 1994). For FIEs (which are mainly formed with state enterprises), the formal use of performance appraisal could reflect the influence of state and foreign companies.

Table 10-18 also indicates that only for item 1 (the presence of standardised criteria and methods of the appraisal) are the differences among enterprises with four types of ownership [ $X^2(3, n = 346) = 8.607, p < 0.05$ ] statistically significant. Other items conform to a similar pattern regardless of ownership. For example, with regard to the frequency of performance appraisal, the majority of the enterprises in this sample conducted it on a yearly basis (ranging from 73% to 90%), with the minority conducting it either twice a year (from 0 to 17%) or on a monthly basis (from 10% to 13%). It is doubtful whether this annual appraisal process can assist in linking compensation to performance by determining the amount of bonus, as bonuses are usually distributed on a more frequent basis (monthly or quarterly). In addition, it is worth noting that only half of the respondents ( $n = 204$ ) answered this question, which might be because in some enterprises employees were kept in the dark about performance appraisal as indicated in one of the four case studies (see Chapter 9).

Furthermore, Table 10-18 reveals who conducts the appraisal and methods used for appraisal. It is clear that performance appraisal is primarily under the control of department managers (between 71% and 94%), and supervisor's comments or top-down assessment is still the main method used in such assessment (prevalence ranges from 57% to 65%). Self-evaluation was also used (ranging from 38% to 51%), but less frequently than supervisor's comments. Peers' comments on individual performance appear to be very unpopular (from 9% to 27%) particularly in FIEs (9%). This has



indicated a move away from the traditional method of assessing a cadre's performance within the group which was more politically oriented (see Section 4.3.1). In some cases, department managers and line managers are jointly responsible for conducting the assessment, and various methods of appraisal are used together, thus the sum of percentages in the table is more than 100.

The second part of this section examines the purposes for using performance appraisal. There are 12 assessment items as listed in Table 10-19 (labelled from P1 to P12). According to literature review, such appraisal tends to serve three major purposes within an organisation: administration, development and communication (e.g., Butler, Ferris & Napier, 1991; Cleveland, Murphy & Williams, 1989; Williams, 1972). Based on these researchers' work and also the values of Cronbach's alpha, the 12 items were classified into three categories that make up the three major assessment purposes.

**Table 10-19 Items for performance appraisal purposes**

Items for Performance Appraisal Purposes	
P1	Determine appropriate pay.
P2	Document subordinate's performance.
P3	Plan development activities for subordinate (e.g. training, new duties).
P4	For salary administration.
P5	Recognise subordinate for things done well.
P6	Lay out specific ways in which subordinate can improve performance.
P7	Discuss subordinate's views.
P8	Evaluate subordinate's goal achievement.
P9	Identify subordinate's strengths and weaknesses.
P10	Allow subordinate to express feelings.
P11	Determine subordinate's promotability.
P12	Basis for bonus distribution.

The first category is related to the purpose of administration. The administrative aspect may be seen in a variety of contexts. However, the predominant feature of this aspect is its aim to document an audit of the workforce strengths and weaknesses to facilitate

the establishment of appropriate reward systems and relate past performance to future promotability (Schuler, et al., 1992; Silverman 1989). Thus the administrative purpose usually encompasses staffing, compensation, promotion, reward and punishment systems (Silverman, 1989). From Table 10-19 it is clear that five items are relevant to this purpose, namely, P1 (determine pay), P2 (document performance), P4 (salary administration), P11 (determine promotability), and P12 (basis for bonus).

The developmental purpose of performance appraisal forms the second category. It aims to provide a framework to assess and evaluate past performance as well as a benchmark for future development of the individual employee (Butler et al., 1991; Cardy & Dobbins, 1994). It also seeks to "identify and develop potential for future performance, linked to succession and personal development planning" (Goss, 1994: 51). Accordingly, five items in Table 10-19 are grouped together, i.e., P3 (plan development activities), P5 (recognise things done well), P6 (specify ways to improve performance), P8 (evaluate goal achievement), and P9 (identify strengths and weaknesses). Items P5, P8 and P9 focus on the assessment of past performance, while items P3 and P6 relate to planning for future development.

The final aspect focuses on communication. In the context of performance appraisal, communication is seen as a function allowing for the development of a dialogue between appraiser and appraisee to improve the understanding of perceived goals and objectives, specifically, issues at work and the appraisee's role in the organisation (Schuler, et al., 1992). The aim would be to draw appraisees into voicing ideas and suggestions for problem-solving and decision-making (Goss, 1994). Therefore, this purpose involves providing feedback to employees about behaviours and results they

should continue or achieve (Butler, et al., 1991). The two remaining items in Table 10-19 relate to this purpose, i.e., P7 (discuss subordinate's views) and P10 (allow subordinate to express feelings).

The three major purposes of performance appraisal are displayed in Table 10-20, together with the items that belong to each category, the corresponding value of Cronbach's alpha, the mean and standard deviation for each of the purposes.

**Table 10-20 Mean and standard deviation (s.d.) pertaining to each major purpose of performance appraisal**

Purposes of appraisal	Corresponding items	Cronbach's alpha	Mean (s.d.)	T - test
Administration (n = 326)# (is now)	'is now' P1, P2, P4, P11, P12	0.74	3.42 (.582)	15.41***
(should be)	'should be' P1, P2, P4, P11, P12	0.68	3.96 (.455)	
Development (n = 313) (is now)	'is now' P3, P5, P6, P8, P9	0.82	3.16 (.671)	14.95***
(should be)	'should be' P3, P5, P6, P8, P9	0.80	3.79 (.572)	
Communication (n = 282) (is now)	'is now' P7, P10	0.77	2.91 (.813)	14.25***
(should be)	'should be' P7, P10	0.76	3.68 (.706)	

Note: # number of pairs; \*\*\*  $p < 0.001$

Table 10-20 indicates that all of the estimates of inter-item reliability (Cronbach's alpha coefficients) exceed or approximate 0.70, demonstrating an acceptable degree of reliability with the instrument used. Two paired-sample t-tests were conducted to examine whether current practices are significantly different from ideal practices. The

test results reported in this table reveal a clear trend to increase the use of performance appraisal for all three purposes from the current level with the differences between 'is now' and 'should be' being statistically significant ( $p < 0.001$ ).

The first paired-sample t-test in Table 10-20 shows that performance appraisal is currently used more for administration than the other two purposes (3.42 compared to 3.16 and 2.91) with an expected increase in the future (means increased from current 3.42 to 3.96 in the future). The emphasis placed on the administration of performance-related pay, bonuses and promotion is mainly the result of the Chinese industrial enterprise reform. In 1984, a state-issued document on the enterprise responsibility system advocated linking employees' income to their job performance. Since then, enterprises have started to move away from the traditional iron wage system. Whilst the government maintains control over the size of the total payroll, enterprises have been given the autonomy to set up their own compensation systems within the state guidelines (Child, 1995; Chow, 1992; Warner, 1995). More enterprises have started to use performance appraisal as a way of determining an appropriate pay system (Easterby-Smith, Malina & Yuan, 1995; Nyaw, 1995; Zhao, 1995). This survey result is consistent with the findings from the four case studies, where performance appraisal was used only for the purpose of administration (see Chapters 6 to 9).

Table 10-20 also indicates a trend to increase the use of performance appraisal for development in the future ('is now' = 3.16 whereas 'should be' = 3.79). Traditionally, performance appraisal was used mainly for cadres' promotion and transfer, and these decisions were based on one's past performance. Ordinary employees, under the centralised labour allocation system before the reforms, were expected to remain in

one position during their lifetime employment. During Mao's regime, employees were always encouraged by the state 'to be a cog in a machine'. This was evident in the survey results of Weldon and Jehn (1993: 65) who have noted that many Chinese managers agreed that "the employee who quietly does his/her duty is one of the greatest assets of an organisation". The introduction of the enterprise responsibility system put managers under performance-based contracts to the state. Consequently, many managers only focused on short-term goals during their appointment rather than adopting a long-term strategy, such as investing in employee education to further develop employees' career (Chen, D.R. 1995; Zhao, 1995). Similarly, lack of career development, especially for ordinary employees, was identified as one of major problems in the four case studies.

Currently performance appraisal is least used for the purpose of communication although there is a pronounced expectation that it should be used more for this purpose in the future (means increased from 2.91 to 3.68). In Western market economies, the communication process in performance appraisal is thought to facilitate an open and honest discussion between appraiser and appraisee, which could include criticism. It is expected that such an approach will lead to a more open and interactive workplace (Chow, 1994). However, due to political constraints and cultural differences in China, people are usually cautious during such exchanges (Child, 1994; Easterby-Smith et al., 1995; Fung, 1995; Milliman et al., 1994). Although the Party and the government often advocate worker participation in management, encouragement of such mutual communication is often merely rhetorical. For example, Baird, Lyles and Wharton (1990) identify in their survey that Chinese managers viewed providing positive and negative feedback in appraisals as much less significant than did their American

counterparts. Lack of communication in performance appraisal was also identified in the case studies presented earlier. For example, little feedback was provided by appraisers to appraisees in the case of ElectroCo (Chapter 8) and CableCo (Chapter 9) where results of performance appraisal were kept confidential.

In general, the survey results in Table 10-20 manifest a trend for performance appraisal to be used more for the purposes of administration, development and communication in the future. Does such an expectation vary according to different types of enterprises? Does the type of ownership have any impact on the use of performance appraisal for different purposes? In order to answer these questions, a MANOVA test was conducted to explore the extent to which performance appraisal was used for the three major purposes in four types of enterprises, and to examine whether the use varied across different ownership types (see Table 10-21).

**Table 10-21 Impact of ownership on three major purposes of performance appraisal**

Purposes of appraisal	SOEs m (s.d.)	COEs m (s.d.)	POEs m (s.d.)	FIEs m (s.d.)
Administration				
(is now)	3.34 (.535)	3.32 (.516)	3.54 (.811)	3.40 (.682)
(should be)	3.94 (.480)	3.95 (.422)	4.04 (.615)	3.99 (.428)
Development				
(is now)	3.12 (.650)	3.01 (.508)	3.31 (.939)	3.18 (.735)
(should be)	3.80 (.607)	3.79 (.451)	3.93 (.513)	3.74 (.634)
Communication				
(is now)	2.90 (.751)	2.70 (.678)	3.10 (.901)	2.98 (.982)
(should be)	3.70 (.702)	3.57 (.609)	3.65 (.464)	3.64 (.754)
F (18, 786) < 1				

m = mean; s.d. = standard deviation

Table 10-21 displays the means of each purpose in both 'is now' and 'should be' situations for each type of ownership, and the F value is also presented to show whether there is any statistical significance for the differences. As the F value is not statistically significant, it indicates that ownership does not have significant impact on the use of performance appraisal for different purposes. Furthermore, the expectation that utilisation of performance appraisal for the three major purposes would increase in the future is evident across the four types of enterprises. It can also be observed that enterprises, regardless of ownership, all used performance appraisal more for administration than for the other two purposes. Regarding administration, POEs and FIEs had higher means in both 'is now' and 'should be' situations (3.54 and 4.04 respectively for POEs, and 3.49 and 3.99 for FIEs) than SOEs (3.34 and 3.94) and COEs (3.32 and 3.95). This result is consistent with one of the findings to be discussed in the next section (Section 10.4.5), namely, that POEs and FIEs have placed more emphasis on performance-based compensation and therefore use performance appraisal to a greater extent for this purpose.

The final part of this section discusses perceived effectiveness of the current practice of performance appraisal. The respondents were asked whether performance appraisal practices, 1) help the enterprise to have high-performance employees; 2) help increase job satisfaction; and 3) make a positive contribution to the overall effectiveness of the enterprise. The three measures of effectiveness were rated on a five-point Likert scale. They were then correlated with the three major purposes served by performance appraisal. The Spearman rank-order procedure was used to obtain these correlations, as listed in Table 10-22.

**Table 10-22 Spearman rank-order correlations between the three measures of effectiveness and the three major purposes of performance appraisal**

Variables	Increasing employees' performance	Increasing job satisfaction	Overall effectiveness of enterprise
Administration			
(is now)	0.30**	0.25**	0.25**
(should be)	0.10	0.13*	0.11*
Development			
(is now)	0.28**	0.31**	0.24**
(should be)	0.18**	0.24**	0.21**
Communication			
(is now)	0.34**	0.34**	0.26**
(should be)	0.10	0.15*	0.10

\*  $P < 0.05$ ; \* \*  $p < 0.01$

It is clear from Table 10-22 that correlations between the three measures of effectiveness and the 'is now' practices are all higher than correlations between effectiveness and the 'should be' practices. At least two implications can be drawn from this information. First, currently conducted performance appraisal, regardless of the purpose(s) it served, was positively and significantly correlated to job satisfaction, high performance and overall effectiveness of the enterprise. The positive attitudes towards this practice indicate that performance appraisal has been recognised as an effective tool in individual and organisational development. Second, the lower and, in some cases, non-significant correlations in the 'should be' situation may be attributed to the ongoing economic reforms and transition from a planned to a market economy with its associated uncertainties. However, the relatively higher and significant correlations between effectiveness and the development purpose in the 'should be' situation (0.18, 0.24, and 0.21 respectively,  $p < 0.01$ ) may indicate that respondents have more confidence in the use of performance appraisal for this purpose than the other two (i.e., administration and communication).



To summarise, this section has revealed and discussed survey results related to the practice of performance appraisal. The results have provided evidence to support the claim made by other researchers that performance appraisal in China is moving gradually from being a political-oriented bureaucratic assessment towards being a means of implementing enterprise reforms, that is, it is helping to break the iron rice bowl by linking performance to compensation and placing emphasis on merit and achievements (see Section 4.4.2). In examining the three major purposes of appraisal, this study has found that performance appraisal is primarily used for determining bonuses and wages, which is consistent with the findings from the four case studies (Chapters 6-9). However, our results indicate that performance appraisal will be used more for communication and development in the future.

Despite the controversy raised in Western market economies about performance appraisal in terms of its validity, reliability and credibility (e.g., Hegarty, 1995; Lawler, 1994; and Thomas & Bretz, 1994), this practice is being used on an annual basis by most Chinese enterprises regardless of their ownership. In addition to our findings that earnings of employees have started to become performance indicators and the bonus system is moving away from egalitarian distribution as suggested by some researchers (e.g., Child, 1994; Jackson, 1992, Warner, 1995), the survey results also reveal that performance appraisal is now and will continue to be utilised in all types of enterprises as a useful tool to help raise the effectiveness of work by linking compensation more closely with the fulfilment of various tasks and responsibilities. This will be necessary if Chinese enterprises are to adapt to an increasingly competitive global business environment.

### **10.4.5 Compensation and Welfare**

The survey questions relevant to compensation and welfare composed of four parts, each of which is detailed and discussed in this section. First, compensation practices in general are examined. Second, the perceived effectiveness of compensation practices is highlighted in terms of employee performance, job satisfaction and organisational operation. Third, current wage packages including bonus across the four types of ownership are set out. Finally, welfare benefits offered across the four types of ownership are presented.

In the survey the respondents indicated to what extent nine practices of employee compensation (labeled from C1 to C9) are being used currently ('is now') and should be used in the future ('should be'). These were measured by a five-point, Likert-type scale ranging from (1) 'not at all' to (5) 'to a very great extent'. In order to cluster related items a factor analysis was employed. As done previously, Mahalanobis distances were calculated on each of the 9 items for each respondent to detect the presence of multivariate outliers. Nine multivariate outliers were revealed and deleted from further analyses. None of the items generated distributions that departed considerably from normality. Following this procedure factor analysis was used. During the analysis, the principal-axis factoring extraction method was used to uncover sets of related items, followed by a varimax rotation. Items associated with compensation practices were subjected to two separate factor analyses. The first employed the responses that related to current practices ('is now') and the second used the responses that related to future practices ('should be'). Only the factors that emerged from both of these procedures were used in further analyses. Each of these analyses generated two factors.

Table 10-23 provides the factor loadings that correspond to the first factor. The first two columns specify the variables that correlated significantly with this factor. The third column specifies the factor loadings associated with the current practices ('is now') while the final column specifies the factor loadings associated with future practices ('should be'). The pattern of factor loadings does not differ between current and future practices and apart from one discrepancy (i.e. C7), current and future practices generated a similar factor structure. As these items relate to the general domain of compensation practices, the first factor is termed 'general compensation'.

**Table 10-23 Factor loadings associated with the first factor - 'general compensation'**

Employee Compensation Practices		is now	should be
C1	Pay incentives such as bonus or profit sharing are an important part of the compensation strategy in this enterprise.	0.55	0.57
C3	In this enterprise a portion of an employee's earnings is contingent on group or enterprise performance goals being achieved.	0.44	0.63
C4	Our pay policies recognise that long-term results are more important than short-term results.	0.71	0.66
C6	Pay incentives are designed to provide significant amount of an employee's total earnings in this organisation.	0.62	0.65
C7	The employee benefits package is very generous compared to what it could be.	0.50	#
C8	The pay system in this enterprise has a futuristic orientation. It focuses employee's attention on long-term (2 or more years) goals.	0.79	0.54
C9	In this enterprise pay raises are determined mainly by an employee's job performance. There is a large pay spread between low performers and high performers in a given job.	0.70	0.55
Percentage of variance accounted for by the factor		34.5%	31.4%

Note: # This indicates the item excluded because of factor loading below 0.40 (10% of variance).

The second factor is indicated in Table 10-24. Again, current and future practices generated the same pattern of factor loadings. However, these factors account for only a small percentage of the total variance. These items pertain to welfare issues, which

are often linked to seniority, particularly in China. Hence, the second factor is called ‘welfare’.

**Table 10-24 Factor loadings associated with the second factor - ‘welfare’**

Employee compensation practices		is now	should be
C2	The benefits are an important part of the total pay package.	0.55	0.59
C5	An employee’s seniority does enter into pay decisions.	0.43	0.45
C7	The employee benefits package is very generous compared to what it should be.	0.47	0.78
Percentage of variance accounted for by the factor		6.5%	8.8%

Note: Items that do not appear in this table correspond to factor loadings below 0.32 (10% of variance).

After uncovering the two factors, items were averaged to generate a single score for each factor. Accordingly, four scales were constructed and each corresponded to the average score on the items that related to a particular factor. These scales are shown in Table 10-25, where the first column provides a label for each scale, the second lists the items that correspond to each scale, the third provides an interpretation of high scores, and the final column reports the value of Cronbach’s alpha corresponding to each scale.

**Table 10-25 Summary of the four scales associated with compensation practices**

Name of scale	Corresponding items	Interpretation of high scores	Cronbach’s Alpha
General Compensation (is now)  (should be)	‘is now’ C1, C3, C4, C6, C8, C9	Compensation in general is regarded as important.	0.81
	‘should be’ C1, C3, C4, C6, C8, C9	Compensation in general should be regarded as important.	0.79
Welfare (is now)  (should be)	‘is now’ C2, C5, C7	Welfare is regarded as important in this enterprise.	0.52
	‘should be’ C2, C5, C7	Welfare should be regarded as important in this enterprise.	0.64

Table 10-25 indicates that the inter-item reliability associated with the welfare scales is insufficient (Cronbach's  $\alpha < 0.7$ ), thus these scales are discarded from further factor analyses. In contrast, the inter-item reliability associated with the general compensation scales is approximately 0.8 and is thus encouraging.

A paired-sample t-test demonstrated that the current general compensation practices ('is now' mean = 3.47, s.d. = 0.64) do not fulfil the ideal ('should be' mean = 4.00, s.d. = 0.51), [ $t(333) = 13.99, p < 0.001$ ]. There are six items relating to the factor of general compensation, and statistically significant differences between current and future practices indicate a clear expectation of greater emphasis on each of these pay practices in the future. These results show that material incentives are emphasised by employees both now and in the future. It is also worth noting that respondents place more weights on practices such as 'individual performance linked pay' (C9) and 'futuristic orientation of the pay' (C8). The emphasis on individual performance-linked pay will be discussed in the following part. The attention given to long-term oriented pay may, to some extent, reflect dissatisfaction with the Contract Management Responsibility System (CMRS) that has been popular in enterprises, especially SOEs, since the late 1980s (also see Section 3.4.2). The contract usually lasts one to five years, and its short-term nature has induced myopic behaviour in many managers, such as using earnings to finance wage increases rather than capital improvements with minimal consideration of long-term investment (Liu, 1996; Xu, 1996). This phenomenon can also be observed in Sino-foreign joint ventures where the "Chinese partner pressed for a high level of short-term profits and profit distribution" to secure short-term returns (Child, 1994: 277).

As the three items related to 'welfare' were excluded from the factor analysis due to insufficient inter-item reliability, paired-sample t-tests were conducted to compare the current and future practices of those items individually. Apart from 'seniority' (C5), there is a clear increase in the emphasis on employee benefits including various subsidies and allowances (means of C2 and C7 increase from 3.34 and 3.02 to 3.75 and 3.69 respectively, t-test value of  $C2 - t^{c2} (289) = 7.05, p < 0.001$  and t-test value of  $C7 - t^{c7} (285) = 11.52, p < 0.001$ ). The significance of these differences indicates that benefits are perceived to be important in employee compensation. In contrast, seniority in pay decision is expected to become less important in future practice (mean decreases from 3.27 to 3.24, t-test value of  $C5 - t^{c5} (290) = 0.39, p > 0.05$ ). This reduced emphasis on seniority is consistent with extant literature (e.g. Jackson, 1992; Nyaw, 1995). Caution should be displayed, however, when deriving conclusions from these findings as each of these analyses utilised only a single item.

The second part of this section covers the respondents' perceived effectiveness of compensation practices. There were three items relating to the extent to which the various compensation practices are perceived to be effective. Survey respondents were asked whether compensation practices, 1) help the enterprise to have high-performing employees; 2) help increase job satisfaction; and 3) make a positive contribution to the overall effectiveness of the enterprise. The three measures of effectiveness were rated on a five-point Likert scale. Spearman rank-order correlations between current general compensation and the three measures of effectiveness are 0.41, 0.39, and 0.40 respectively ( $p < 0.01$ ), whereas correlations between future general compensation and the three measures are 0.18, 0.19, and 0.18 respectively ( $p < 0.01$ ). Correlations between effectiveness and current practices tended to be greater than for future

practices. One explanation for this may be that compensation practices, like other HR practices, are still in transition along with enterprise reforms. The transition has brought with it many uncertainties about the future, including issues such as the likelihood of a national social security system being established to remove the heavy burden of welfare from enterprises, and the extent to which an enterprise may become an independent economic entity.

While the current compensation practices are perceived to have a positive impact on the performance of employees and enterprises in general, does the type of ownership have an impact on compensation practices? A MANOVA test was conducted to ascertain whether the two scales of the factor, ‘general compensation’, varied across the four types of ownership. Table 10-26 displays the means on both scales of the factor as a function of the type of ownership.

**Table 10-26 Impact of ownership on the factor of general compensation**

Variables	SOEs m (s.d.)	COEs m (s.d.)	POEs m (s.d.)	FIEs m (s.d.)
General compensation (is now)	3.50 (.634)	3.48 (.524)	3.33 (.923)	3.43 (.647)
General compensation (should be)	4.03 (.505)	4.03 (.522)	3.94 (.548)	3.86 (.520)
F (6, 638) = 1.13, p > 0.05 (n.s.)				

m = mean; s.d. = standard deviation

The results in Table 10-26 demonstrate that the type of ownership did not influence current or future practices in general compensation for employees [F (6, 638) = 1.13, p > 0.05]. Although the impact of ownership on general compensation practices was statistically non-significant, it did have impact on current wage packages. Table 10-27 shows the components of wage packages across enterprises with four types of

ownership. It can be seen that the adoption of a floating wage (usually based on individual and/or group and enterprise performance) and positional allowances was more common in SOEs and COEs than in POEs and FIEs [ $X^2(3, n = 276) = 23.69$ ,  $p < 0.001$  and  $X^2(3, n = 275) = 26.90$ ,  $p < 0.001$  respectively]. The table also indicates that base pay was commonly used in all types of enterprises, and the differences across the four types of ownership were not statistically significant. The enterprises surveyed all had components in their wage packages in addition to base pay, floating wage and positional allowances. These included various subsidies required by the state and local government, and allowances determined by each enterprise. Some major subsidies and allowances are detailed later in the section.

**Table 10-27 Components of wage packages**

Variables	SOEs	COEs	POEs	FIEs	Chi-square value
Base pay	98.1% (n = 154)	94.9% (n = 59)	91.7% (n = 12)	98.1% (n = 52)	$X^2(3, n = 277) = 2.94$
Floating wage	76.7% (n = 154)	69.5% (n = 59)	50.0% (n = 12)	41.2% (n = 51)	$X^2(3, n = 276) = 23.69^{***}$
Positional allowances	77.9% (n = 154)	54.2% (n = 59)	41.7% (n = 12)	44.0% (n = 50)	$X^2(3, n = 275) = 26.90^{***}$

\*\*\*  $p < 0.001$

While Table 10-27 shows that many enterprises surveyed used a floating wage as part of their compensation, an important question is whether they used a profit-sharing plan for their bonus system. The survey data reveal that only 20 to 30% of enterprises surveyed had such a plan, and the results were all statistically non-significant. This indicates that ownership has little impact on the adoption of profit-sharing plans.



Although profit-sharing plans were not popular according to our survey, all the enterprises surveyed included bonuses in their compensation packages. Researchers have pointed out that the distribution of bonus in the Chinese industrial sector is shifting from egalitarianism to polarisation based on individual and/or collective performance (Chow, 1992; Warner, 1996b, 1997). The question arises as to which items had an impact on bonus distribution. The results shown in Table 10-28 indicate that consumer price index (CPI) is a major determinant of bonuses, which means the bonus is given as compensation for inflation. ‘Attendance’ was used as a prominent determinant of bonus, whereas ‘profitability’ received only minor consideration. This reflects the inertia of Chinese managers who had little concern about “the relationship between costs and revenues” under a planned economy (Davidson, 1987: 72).

**Table 10-28 Variables that determine the bonus distribution**

Variables	SOEs	COEs	POEs	FIEs	Chi-square value
Individual performance	75.4% (n = 171)	72.3% (n = 65)	77.8% (n = 18)	71.2% (n = 73)	$X^2(3, n = 327) = 0.70$
Group performance	45.9% (n = 172)	41.5% (n = 65)	16.7% (n = 18)	30.1% (n = 73)	$X^2(3, n = 328) = 9.63^*$
Attendance	62.2% (n = 107)	59.4% (n = 64)	38.9% (n = 18)	49.3% (n = 73)	$X^2(3, n = 327) = 6.21$
Profitability	9.4% (n = 171)	8.1% (n = 62)	17.6% (n = 17)	12.0% (n = 73)	$X^2(3, n = 323) = 4.99$
CPI	90.6% (n = 171)	91.9% (n = 62)	82.4% (n = 17)	87.7% (n = 73)	$X^2(3, n = 323) = 4.99$

\*  $p < 0.05$

It is worth noting that, for each type of enterprise surveyed, over 70% used ‘individual performance’ to determine the bonus distribution. In contrast, ‘group performance’ received quite different levels of emphasis across the enterprises, with POEs displaying the least interest in linking bonus to group performance. China is a collective society (Hofstede, 1993) and its pre-reform compensation system was

characterised by collectivism and egalitarianism. The economic reform has brought radical changes to the compensation system, but there remains a legacy of failure to link bonuses and individual contribution. Therefore, after over a decade of the compensation reform, employees still expect an even closer link between reward and individual performance. This research finding is consistent with that of other researchers who note that Chinese employees would prefer to have reward differentials “determined primarily according to individual contributions” (Zhao, Y. 1995: 127) and that there is higher receptiveness to widened reward disparities based on performance (Aiello, 1991; Ding et al., 1997; Walder, 1991). Apart from ‘group performance’ [ $X^2$  (3, n = 328) = 7.19,  $p < 0.05$ ], the impact of ownership on the distribution of bonuses was not statistically significant.

Finally, this section looks at welfare benefits. Table 10-29 sets out the major allowances offered by the enterprises and the impact of ownership on these welfare benefits.

**Table 10-29 Welfare - pension insurance, medical and housing allowances**

Variables	SOEs	COEs	POEs	FIEs	Chi-square value
Pension insurance	97.3% (n = 182)	86.5% (n = 74)	89.5% (n = 19)	84.2% (n = 76)	$X^2$ (3, n = 351) = 15.81*
Medical allowances	86.3% (n = 175)	83.1% (n = 71)	84.2% (n = 19)	89.5% (n = 76)	$X^2$ (3, n = 341) = 1.32
Housing fund	82.1% (n = 179)	60.3% (n = 68)	73.7% (n = 19)	56.9% (n = 72)	$X^2$ (3, n = 338) = 21.79***

\*  $p < 0.05$ ; \*\*\*  $p < 0.001$

The table indicates that ‘pension insurance’ was provided by most SOEs (97.3%) but not in all the other types of enterprises. It is likely, however, that the significant differences have diminished since this survey was conducted, as the pension insurance

became compulsory when the Labour Law came into effect on 1 January 1995. 'Medical allowances' were offered by over 80% of the enterprises, with no significant difference between the enterprise ownership types. It is interesting to note that the housing allowance was supplied quite unequally across the enterprises [ $X^2(3, n = 338) = 21.79, p < 0.001$ ]. It appears that a much greater portion of SOEs (82.1%) offered this allowance to their employees than did FIEs (56.9%). Foreign partners of joint ventures have often resisted the Chinese expectation "that they should provide accommodation for their employees" (Child, 1994: 271). With the exception of small and private-owned enterprises, however, national regulations now require enterprises to make some provisions for housing, even though it is not mandated in the Labour Law (Stevenson-Yang, 1996). Unfortunately, due to the vague policies and conflicting regulations issued by state and local governments, foreign investors find that clarity is desperately lacking in social insurance systems such as housing. Further, practices vary greatly even within a municipality, depending on negotiations between the enterprises and local labour authorities (Stevenson-Yang, 1996).

Survey items included major subsidies and allowances offered by enterprises, such as those for non-staple food, personal hygiene, books and newspapers. Over 85% of respondents indicated that their enterprise offered subsidies for non-staple food, but fewer enterprises offer subsidies for books and newspapers (between 44% and 75% of respondents). The subsidy for books and newspapers depends heavily on the job position of respondents, and in many enterprises only white-collar employees, e.g. engineers and managers, are entitled to this subsidy. The subsidy for personal hygiene such as bath and haircut is offered by fewer SOEs and COEs, probably because these enterprises already provide facilities for such needs. Subsidies offered across the four

types of ownership are not significantly different, indicating that ownership does not have a significant impact on subsidy and allowance packages.

To summarise, the examination of the impact of ownership on compensation practices shows that enterprises under different types of ownership have fairly similar approaches to general compensation practices, such as placing emphasis on material incentives by including bonuses in pay packages, and linking pay to performance rather than seniority. The findings of this study support previous research suggesting that compensation reform has started to “introduce ‘economism’ into workers’ attitude” (Goodall & Warner, 1997: 579) and that compensation in China is undergoing a transition from state-planned egalitarianism to an enterprise-determined motivational mechanism (e.g. Liu, 1996; Osigweh, Yg & Huo, 1993).

Although ownership did not have a significant impact on general compensation practices, adoption of profit-sharing plans, or subsidy and allowance packages, it did affect the choice of wage packages and the methods used to distribute bonuses. When the survey was conducted in late 1994 and 1995, the floating wage system was popular. The survey results reveal, however, that FIEs and POEs were less likely to adopt floating wages and positional allowances in their wage packages, and they seemed to prefer a simplified package rather than one with different components. In terms of bonus distribution, more POEs linked this reward to individual performance and enterprise profitability rather than group performance and attendance.

According to the survey results, current compensation practices in general are regarded as important and show positive correlations with enterprise effectiveness. However,

the results also indicated a clear preference for greater emphasis on the linkage between individual performance and reward, performance-differentiated pay and long-term oriented pay practices. Overall, the results of the survey have supported the prediction of Adler, Campbell and Laurent (1989) that reforms in China would bring a trend towards performance-based compensation systems. Shenkar has argued that continuing reforms “may change the situation, particularly in collective, private, and foreign-invested enterprises” (1994: 15). The research findings suggest that there is likely to be greater diversity in employee compensation in China in the future, with POEs and FIEs, in particular, placing increasing emphasis on performance-based compensation.

#### **10.4.6 Training and Development**

In this section, survey results related to training and development are analysed and discussed in three parts. The first part reviews the types of training programs offered by enterprises, and the second examines the extent to which training and development is being used ('is now') and ought to be ('should be') used for certain purposes. The final part is concerned with the respondents' perception of the effectiveness of training and development with respect to employees' performance, job satisfaction, and organisational operation.

Table 10-30 displays the major types of training programs, including on-the-job and off-the-job training, induction and orientation for new employees, occupational skills, technical and profession skills and management development programs. Differences across the four types of ownership are all statistically significant, especially for on-the-job, off-the-job, and management development training. The table shows that SOEs

offer more training programs than the other three types of enterprises. This reflects a high degree of state involvement in training and the level of state control over SOEs. State-ownership still dominates the manufacturing industry, and so SOEs usually had more personnel practices including training as noted by Zhao (1994).

**Table 10-30 Types of training programs offered with different types of ownership**

Training offered	SOEs	COEs	POEs	FIEs	Chi-square value
On-the-job training	92% (n = 178)	83% (n = 73)	80% (n = 15)	68% (n = 77)	$X^2(3, n = 343) = 23.08^{***}$
Off-the-job training	58% (n = 177)	27% (n = 71)	20% (n = 15)	40% (n = 76)	$X^2(3, n = 339) = 25.61^{***}$
Induction/orientation	69% (n = 169)	47% (n = 64)	77% (n = 13)	73% (n = 67)	$X^2(3, n = 313) = 13.04^{**}$
Occupational skills	85% (n = 168)	70% (n = 64)	71% (n = 14)	63% (n = 67)	$X^2(3, n = 313) = 16.32^{**}$
Technical/professional skills	81% (n = 169)	58% (n = 64)	64% (n = 14)	72% (n = 67)	$X^2(3, n = 314) = 12.95^{**}$
Management development	77% (n = 169)	44% (n = 64)	36% (n = 14)	47% (n = 66)	$X^2(3, n = 313) = 34.08^{***}$

\*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

As shown in Table 10-30, compared with COEs and POEs, FIEs offered more off-the-job training (40% compared to 27% in COEs and 20% in POEs), technical and professional skills training (72% compared to 58% and 64%), and management development programs (47% compared to 44% and 36%). This could be attributed to the influence of both the state and foreign companies as many FIEs were formed with SOEs. According to Dalton and Austen (1995: 60), most foreign companies have recognised that "training for local employees is critical to successful operations. Good training and development can make up the shortfall in skills, while also providing a company with a considerable competitive edge in the market".

Furthermore, as many employees prefer to work in the non-public sector because of better pay, FIEs are able to recruit labour that might have already been trained in SOEs. This explains why FIEs offer less basic technical training such as on-the-job training (68% in FIEs, 92% in SOEs, 83% in COEs and 80% in POEs) and occupational skills training (63% in FIEs, 85% in SOEs, 70% in COEs and 71% in POEs). POEs offered far fewer off-the-job and management training programs for employees and this may be attributed to their informal management practices and their profit-focused, short-term strategies. Yuan (1993) points out that profit-maximising has become the major aim of many POEs, which usually offer higher salaries to employees but pay little attention to employee training and career development. What Yuan has noted is consistent with the findings from both the survey results and the case conducted in a POE (see Chapter 8).

The second aspect of this section examines the extent to which certain purposes of training and development are being and should be served. In the survey, the respondents needed to indicate to what extent training and development is being ('is now') and ought to be ('should be') used for 10 purposes (labelled from T1 to T10). Response options were based on a five-point, Likert-type scale ranging from (1) 'not at all' to (5) 'to a very great extent'. In order to ascertain clusters of related items, factor analyses were employed again. Before implementing these analyses, the data were scanned to eliminate multivariate outliers and to ensure that all items were approximately normal. To detect the presence of multivariate outliers, Mahalanobis distances were derived from all of the items that were utilised in the factor analysis. Sixteen multivariate outliers were uncovered and rejected from further analyses. None of the variables generated distributions that departed markedly from normality.

The items pertaining to training and development were subjected to two factor analyses, one corresponding to the current situation ('is now') and one corresponding to ideal practice ('should be'). Both of these factor analyses generated two similar factors. Table 10-31 provides the factor loadings that correspond to the first factor. Apart from two discrepancies (i.e., T5 and T9), the 'is now' practices and the 'should be' practices generated a similar factor structure. These items generally relate to assisting the employee in adapting to, and interacting with, the enterprises. They are similar to two out of the four training purposes defined by Schuler et al. (1992), i.e. to increase the adaptability of workforce (such as T3 and T6) and to increase employee commitment (such as T1, T8 and T10). For the sake of convenience, the first factor is termed 'adaptation'.

**Table 10-31 Factor loadings associated with the first factor - adaptation**

Purposes of training and development		is now	should be
T1	Provide a reward to employees.	0.43	0.49
T3	Improve employees interpersonal abilities, i.e., how well they relate to others.	0.62	0.66
T5	Prepare employees for future job assignments.	0.58	#
T6	Build teamwork within the enterprise.	0.70	0.53
T8	Help employees understand the business, eg., knowledge of competitors, new technologies, etc.	0.73	0.65
T9	Provide employees with the skills needed to do a number of different jobs, not just one particular job.	0.59	#
T10	Teach employees about the enterprise's values and ways of doing things.	0.79	0.64
Percentage of variance accounted for by the factor		43.4%	8.1%

Note: # This indicates those items excluded because of factor loadings below 0.43



Table 10-32 provides the factor loadings that pertain to the second factor. Apart from one disparity (i.e., T6), the current practices ('is now') and the ideal practices ('should be') generated a similar factor structure.

**Table 10-32 Factor loadings associated with the second factor - specific training**

	Purposes of training and development	is now	should be
T2	Improve their technical job abilities.	0.89	0.81
T4	Remedy employees past poor performance.	0.69	0.53
T5	Prepare employees for future job assignments.	0.45	0.64
T6	Build teamwork within the enterprise.	#	0.37
T7	Provide substantial training when employees first start working in the enterprise.	0.50	0.50
T9	Provide employees with the skills needed to do a number of different jobs, not just one particular job.	0.34	0.50
Percentage of variance accounted for by the factor		8.1%	33.8%

Note: # This indicates the item excluded because of factor loading below 0.32

The items in Table 10-32 essentially relate to improving performance on particular tasks. They are also related to the remaining two training purposes specified by Schuler et al. (1992), namely, to remove performance deficiencies (such as T4) and to update technical knowledge and skills (such as T2, T5 and T7). Therefore, the second factor is called 'specific training'. After two clusters of related items for both 'is now' and 'should be' practices were revealed, four scales were constructed accordingly and displayed in Table 10-33.

**Table 10-33 Summary of the four scales associated with purposes of training**

Name of scale	Corresponding items	Interpretation of high scores	Cronbach's Alpha
Adaptation (is now)	'is now' T1, T3, T6, T8, T10	Adaptation to the organisation is greatly assisted.	0.77
(should be)	'should be' T1, T3, T6, T8, T10	Adaptation to the organisation should be greatly assisted.	0.76
Specific training (is now)	'is now' T2, T4, T5, T7, T9	Training in work-related skills is often provided.	0.81
(should be)	'should be' T2, T4, T5, T7, T9	Training in work-related skills should be provided extensively.	0.81

Each scale in Table 10-33 corresponded to the average score on those items that related to a particular cluster. It is clear from the table that all of the estimates of inter-item reliability exceed 0.75, so reliability can be regarded as adequate. The mean and standard deviation for each of the four scales detailed in Table 10-33 are provided in Table 10-34.

**Table 10-34 Mean and standard deviations (s.d.) pertaining to each scale**

Items	Mean	s.d.	T - test
Adaptation (is now)	3.12	0.54	t (423) = 24.94***
Adaptation (should be)	3.75	0.45	
Specific training (is now)	3.50	0.59	t (423) = 23.38***
Specific training (should be)	4.10	0.34	

\*\*\* p < 0.001

In Table 10-34, two paired-sample t-tests were conducted to ascertain whether the current practices ('is now') are consistent with ideal practices ('should be'). The first t-test corresponded to the adaptation purpose while the second t-test to specific training purpose. The first t-test value reveals that current involvement in facilitating employees' adaptation to the enterprise does not conform to the ideal [t (423) = 24.94,

$p < 0.001$ ]. Likewise, current emphasis on training in specific job-related skills does not fulfil the ideal [ $t(423) = 23.38, p < 0.001$ ]. Examination of the means of 'is now' and 'should be' situations reveals that the current practice patterns are different from the patterns perceived as appropriate in the future, and the differences identified are statistically significant ( $p < 0.001$ ). The details of these results are discussed below.

Table 10-34 indicates that current training and development is focused heavily on job-related skills and improvement of labour productivity (3.50 for current 'specific training' compared with 3.12 for current 'adaptation'). This finding is consistent with the results presented in Table 10-30, which indicates that the majority of enterprises offered job-related skills training. While this trend is consistent with the government's emphasis on vocational training and technical education since the reform, it also highlights the fact that enterprises are now required to increase the skills base of their workforce to compete in the market rather than relying on the state regardless of their performance.

Under a planned economy, multi-skilling received little emphasis because "the great majority of employees in the state-owned enterprises spend their entire working lives in the unit to which they are initially assigned, [so] there is no perceived need to train people broadly" (Holton, 1990: 124). Similarly, Nelson and Reeder (1985) observed that many Chinese managers believed that the way to improve labour productivity was to teach everyone to do one task well. The situation had not improved much in the 1980s, when scientific management techniques such as specialisation and the division of labour became popular in China (Zhao, 1995; Riskin, 1987). However, the growing pressure on enterprises to deploy redundant employees has called for cross-skilling

and multi-skilling training. The state has required enterprises, especially SOEs, to find jobs for redundant employees rather than sending them home. Liu (1994) reported that by mid-1994 more than 200,000 retrenched employees in China had received cross-work training offered by their enterprises, and 80% of them obtained new jobs.

In spite of the current emphasis placed on 'specific training', there is a clear preference for increasing its use in the future (means increase from 'is now' 3.50 to 'should be' 4.10). The data in Table 10-34 also indicate that training is used at a relatively low level for increasing workforce adaptability and employee commitment, although these aims are expected to receive increased emphasis in the future ('is now' = 3.12, and 'should be' = 3.75). This finding is supported by other researchers' observation that currently technical training, rather than behavioural training, remains standard practice in China's manufacturing sector (Von Glinow & Teagarden, 1990). There are some explanations for this phenomenon.

Laaksonen (1988) has noted that there is a great power distance between top and middle management in China as "Chinese top management holds nearly all the strings of decision-making in its hands, and allows very little power to lower levels" (1988: 316). The traditional bureaucratic structure of Chinese management can make the adoption of teamwork practices very difficult (Dalton & Austen, 1995), resulting in insufficient training in areas such as team-building (T6). Similarly, Child (1994: 174) has observed that in China "very few enterprises have drawn up systematic programs for the training and development of their managers and employees, based on anything like an audit of future needs and personal potential". Consequently, training programs to help employees understand business (T8) and teach employees about values (T10)

are seldom conducted. Further, in many organisations decisions to send employees for training are made by senior managers, and are often influenced by one’s connections rather than one’s merits or needs (Laaksonen, 1988; Wang, 1993). As long as selection for training programs is based on favouritism rather than needs, training will not be seen as a real, non-monetary reward (as indicated in T1). All these reasons may contribute to a relatively low score of the current 'adaptation' factor.

Although Wang (1990) argues that management training in China has started to include some short courses on organisational psychology, the survey results indicate that less effort has been put on behavioural training than on technical training. Is this tendency apparent in all types of enterprises? To explore the impact of ownership on the training and development, a MANOVA test was administrated to ascertain whether or not the scales varied across the four types of enterprises. Table 10-35 displays the means on all four scales as a function of the type of ownership.

**Table 10-35 Impact of ownership on two major factors of training**

Variables	SOEs	COEs	POEs	FIEs
	m (s.d.)	m (s.d.)	m (s.d.)	m (s.d.)
Adaptation				
(is now)	3.09 (.662)	3.04 (.512)	3.31 (1.042)	3.10 (.848)
(should be)	3.740 (.597)	3.54 (.498)	3.93 (.465)	3.73 (.543)
Specific training				
(is now)	3.52 (.573)	3.66 (.435)	3.71 (.736)	3.42 (.680)
(should be)	4.11 (.488)	4.07 (.488)	4.15 (.393)	4.02 (.493)
F (12, 888) = 2.15, p > .05				
m = mean; s.d. = standard deviation				

It is evident in Table 10-35 that currently all types of enterprises used training much less for 'adaptation' (ranging from 3.06 to 3.18) than for 'specific training' (ranging from 3.54 to 3.66). Although both purposes are expected to be used more extensively in the future, 'specific training' would still receive more attention than 'adaptation' (the former would be increased above 4 whereas the latter below 4). However, the results demonstrated that the type of ownership did not influence current or ideal practices in training and development [ $F(12, 888) = 2.15, p > 0.05$ ].

Finally, this section discusses the perceived effectiveness of training and development. The respondents were asked whether training and development practices, 1) help the enterprise to have high-performance employees; 2) help increase job satisfaction; and 3) make a positive contribution to the overall effectiveness of the enterprise. The three measures of effectiveness were rated on a five-point Likert scale. They were then correlated with the two training purposes. The Spearman rank-order procedure was used to obtain these correlations, which are shown in Table 10-36.

**Table 10-36 Spearman rank-order correlations between the three measures of effectiveness and the four scales of training practices**

Variables	Increasing employees' performance	Increasing job satisfaction	Overall effectiveness of enterprise
Adaptation			
(is now)	0.22**	0.35**	0.29**
(should be)	0.23**	0.30**	0.27**
Specific training			
(is now)	0.38**	0.35**	0.35**
(should be)	0.30**	0.24**	0.26**

\* \*  $p < 0.01$

Table 10-36 clearly reveals that all of the correlations departed significantly from zero. Although none of these correlations were especially impressive, they still illustrate that both the current and ideal training in adaptation to the organisation and specific skills correlated positively with effectiveness. The respondents' positive attitude towards training and development practices indicates that this HR practice has been recognised as an effective tool in individual and organisational development.

In summary, this section has examined training and development practices in the industrial sector during the economic transition. The enterprises surveyed, especially SOEs and FIEs, have offered various training programs, although the programs were more for new recruits and existing workers than for career development and they were related more to technical-skills than behaviour. The positive correlations between training practices and overall effectiveness indicate that this HR practice helped enterprises to update technical knowledge and skills, and to compete in a more market-oriented environment.

The survey results also reveal that the impact of ownership on the selection of training programs was statistically significant even though it did not affect the purposes of training. Generally, SOEs and FIEs offered more training programs to employees, while COEs and POEs made less investment in their employees, especially in terms of off-the-job training and management development. This result follows the same pattern as revealed in Table 10-4 (see item 7). However, some researchers, such as Riskin (1987) and Yabuki (1995), have pointed out that many SOEs are suffering from unacceptably low levels of productivity, which is directly related to low levels of workforce education and inadequate technical training. Yabuki (1995: 49) notes that

"the labour productivity of the non-state sector foreign-invested and individually operated enterprises is over three times that of state-owned enterprises". This is similar to this study's finding that SOEs had lowest value of production output per head (see Section 10.2.1). While SOEs appeared to offer more training programs, the question lies in whether they have conducted training only to fulfil training quotas set by the government or as a perfunctory task.

Regardless of the ownership type, all survey respondents expected an increase in the use of training for both technical and behavioural areas. The expectation has reinforced the results displayed in Table 10-4 where 'training and career development' (item 7) is expected to increase significantly in the future. As China is at a stage of dramatic transition towards a more market-oriented economy, improving workforce quality and developing managerial skills have become critical factors.

#### **10.4.7 Labour relations**

This section covers three major aspects of labour relations or the process by which managers and workers determine their workplace relationships. The first is the existence of trade unions in the enterprise and union-density rates (the percentage of permanent employees who are union members). Second is the proportion of tenure and contract employees in the enterprises surveyed. Finally, the participation of employees in management and the methods of participation are discussed.

Table 10-37 presents the survey results on the presence of trade unions, union membership rates and the utilisation of labour contracts. It is clear that SOEs and FIEs had higher union membership rates than POEs and COEs (83% and 70% for SOEs and



FIEs respectively, in contrast to 55% and 65% for COEs and POEs respectively). This could be because traditionally SOEs had more permanent employees than other types of enterprises and these employees were automatically accepted and looked after by the unions. Furthermore, as the FIEs surveyed by this study all formed joint ventures with SOEs, their close association with SOEs contributed to their high representation of unions. These results are consistent with other research that showed only permanent employees could join unions in China (Warner, 1995). As for the union-density rates, less than one-third of the respondents answered this question (only 102 out of 362), with only 3 responses from POEs. The low awareness of the membership rates reflects either the lack of influence or the weak position of unions in the enterprise.

**Table 10-37 The trade union, membership rate and labour contract utilisation**

Variables	SOEs	COEs	POEs	FIEs	Chi-square value
1. Have employees belonging to union in your enterprise	83% (n = 186)	55% (n = 78)	65% (n = 17)	70% (n = 81)	X <sup>2</sup> (3, n = 362) = 23.82***
2. Proportion of union members - half and more	88% (n = 43)	37% (n = 30)	100% (n = 3)	77% (n = 26)	X <sup>2</sup> (3, n = 102) = 26.62***
3. Proportion of permanent employees - half and more	92% (n = 117)	73% (n = 44)	44% (n = 9)	43% (n = 30)	X <sup>2</sup> (135, n = 200) = 240.78***
4. Proportion of contract employees - half and more	35% (n = 155)	46% (n = 56)	73% (n = 11)	88% (n = 66)	X <sup>2</sup> (135, n = 288) = 242.92***

\*\*\* p < 0.001

The questions concerning the proportion of permanent and contract-based employees (items 3 and 4 in Table 10-37) also received fewer responses (200 and 288 respectively for items 3 and 4 compared to 362 for item 1). This might be attributed to the process of implementing the labour contract system in China at the time the survey was conducted (i.e., the implementation of labour contracts started in the early 1990s, and lasted until early 1997). However, the data strongly indicate that before the labour

contract system became compulsory, the public sector (SOEs and COEs) had more permanent employees than POEs and FIEs (92% and 73% for SOEs and COEs respectively as compared to 44% and 43% for POEs and FIEs). Meanwhile, SOEs and COEs had much fewer contract employees than the non-public sector enterprises (35% and 46% for SOEs and COEs respectively in contrast to 73% and 88% for POEs and FIEs). The results here clearly show that while the non-public sector had always used more contract-based employees, the public sector was also moving away from the traditional lifetime employment system.

Finally, the survey raised questions about employee participation in the management process. Table 10-38 reveals the figures showing whether employees were encouraged to participate, how they participated if they could and the percentage of employees participating in management decision-making.

**Table 10-38 Employee participation in the management process**

Variables	SOEs	COEs	POEs	FIEs	Chi-square value
1. Employees are encouraged to participate in the management process	81% (n = 170)	64% (n = 69)	50% (n = 16)	51% (n = 71)	$X^2(3, n = 326) = 26.62^{***}$
2. Methods used for employee participation:					
◆ using a suggestion box	33% (n = 139)	18% (n = 40)	38% (n = 8)	34% (n = 44)	$X^2(3, n = 231) = 3.88$
◆ encouraging suggestions	74% (n = 138)	63% (n = 40)	75% (n = 8)	68% (n = 44)	$X^2(3, n = 230) = 2.20$
◆ accepting suggestions and offering rewards	49% (n = 138)	43% (n = 40)	38% (n = 8)	25% (n = 44)	$X^2(3, n = 230) = 8.13^*$
◆ participating in management decisions	37% (n = 138)	23% (n = 40)	25% (n = 8)	16% (n = 44)	$X^2(3, n = 230) = 8.51^*$
3. Percentage of employees participating in the management process:					
	(n = 144)	(n = 52)	(n = 10)	(n = 56)	
◆ less than 30%	81%	77%	70%	88%	$X^2(6, n = 262) = .713$
◆ about 50%	12%	17%	20%	7%	
◆ over 60%	7%	6%	10%	5%	

\*p < 0.05; \*\*\* p < 0.001

The results for item 1 in Table 10-38 indicate that employees in the public sector were more encouraged to participate in management than those in the non-public sector (81% of SOEs and 64% of COEs as compared to 50% of POEs and 51% of FIEs). The results seem consistent with the Maoist and socialist ideology that workers in China should be masters of enterprises and even of the society as indicated in the earlier literature review. However, the results of item 3 in Table 10-38 clearly indicate that enterprises in the public sector were not more democratic and failed to offer more opportunities for employees to participate in management process. The majority of respondents (over 70%) admitted that less than 30% of employees were involved in management.

When employees had opportunities to participate in management, item 2 in Table 10-38 shows that the most common method was to encourage employees to put forward suggestions (ranging from 63% to 75%). Some respondents (ranging from 18% to 38%) indicated that their enterprises might also set up a suggestion box so employees could voice their opinions in a written form. However, few enterprises actually valued employee participation by accepting their suggestions and offering rewards, especially in the non-public sector (49% for SOEs and 43% for COEs, whereas 38% for POEs and only 25% for FIEs). With respect to participation in management decision-making, only SOEs appeared to offer reasonable opportunities (37% of respondents) with both COEs and POEs allowing much less employee participation (23% and 25% respectively) while FIEs offered the least (16%). The implication of the results in Table 10-38 is that the concept of employee participation is applied more in theory than in practice and this is especially the case in the non-public sector. This situation can be understood in private enterprises, as decision-making is highly centralised in

the hands of the founder-owner of POEs (Lau, Ngo & Chow, 1999; also see Chapter 8). However, while FIEs are often expected to have a more democratic management style with greater employee participation, our survey did not reveal such a result. Further investigation into foreign companies involved in the FIEs may be required. On the other hand, Zhao (1995: 85) argues that because of the traditional planning system, centralised managerial style and cultural impact, Chinese employees are often passive and lack knowledge about participation in management.

## **10.5 Summary**

This chapter has presented and discussed the survey results to achieve four objectives, which are to investigate current HR practices and their difference from the ideal practices, to discern future development trends in HRM and to explore the impact of ownership type on current HRM. The major findings and the issues emerging for the future are summarised below.

The results demonstrate that not all the enterprises surveyed had a separate HR department, but the majority of SOEs and FIEs surveyed had such a department. The HR department often manages white- and blue-collar employees (i.e., cadres and workers) separately in many SOEs, and like in other types of enterprises, the department currently conducts mostly operational tasks such as record keeping, recruitment and selection, and wage administration. Many HR functional activities prevalent in Western HRM were observed in Chinese enterprises but with different characteristics. For example, HR planning in China was mainly short-term based and mostly conducted by HR managers in SOEs and FIEs. Job analysis was often verbal

rather than written, especially in COEs and POEs, and also specified production quotas for job positions. However, some HR activities are moving away from the traditional practices common under the centralised planning economy and incorporating ideas and methods often practised in Western market economies, which is evident in the following HR activities.

First, hiring practice had started to place more emphasis on personal competency than political background and personal profile. Sources for competent employees have broadened to include free labour markets, and employment tests rather than personal interviews have become more commonly used as selection tools. Second, performance appraisal is being transformed from a politically oriented bureaucratic assessment mainly for cadres to a performance-based and compensation-linked practice for all employees. The majority of enterprises surveyed conducted appraisals on a yearly basis, with the intention of offering employee incentives by linking wage packages to the fulfilment of tasks and responsibilities. Third, compensation practices have shifted away from centrally planned wage scales to enterprise-determined wage packages that include base pay, bonuses and various welfare benefits. While base pay is often linked to an individual's skills and position, bonuses are usually linked to individual and organisational performance. This has reflected the essence of the compensation reform, which is to eliminate egalitarianism by introducing material incentives and linking pay to performance. Finally, training programs are gaining popularity in SOEs and FIEs to equip new employees with necessary skills and technical knowledge. Although behavioural training and management development programs have been offered, they are much less popular than technical training.

Training practices in general are perceived to be positively related to organisational effectiveness even though such a correlation is weak.

The results relating to the extent to which HR practices are currently and should be conducted clearly indicate an expected increase in nearly all HR activities. The differences between the current HR practices ('is now') and ideal practices ('should be') may reflect the nature and direction of changes in future HR practices and hence indicate a probable path of HRM development. According to the results, respondents expected the HR department to become less involved in routine work such as record keeping and wage administration but more involved in other HR activities including HR planning, performance appraisal, and training and development. The use of job analysis is expected to increase so as to complement other HR activities such as planning, hiring, and setting up performance standards. Greater emphasis on job-related competency in hiring practices and utilising performance appraisal for the purposes of communication and development are also among the changes anticipated. Furthermore, respondents showed a strong preference for individual-performance-related reward, performance differentiated pay and long-term oriented pay practices.

Among all the HR practices surveyed, training and development required the greatest advancement in the future as the results indicate that the amount of further education and career development currently offered to employees is far from sufficient. This could be partly attributed to managers' nonchalance toward training and lack of support from other management practices. For instance, since the introduction of the Contract Management Responsibility System in 1984, managers on short-term contracts have adopted a short-term strategy in production, marketing and profit-

making, with little emphasis on employee training. Training is often seen as costly and risky by many Chinese managers, because their enterprises may not receive immediate returns and employees may leave the enterprise after training (Yu & Xin, 1994; Zhao, 1995). In addition, given the general lack of knowledge on strategic HRM, progress in training and development alone is difficult to achieve (Von Glinow & Teagarden, 1990). With training and development undoubtedly one of the key factors 'in determining China's ability to compete in world markets' (Gregory & Wales, 1996: 29), its role is expected to increase in the future, as indicated by our survey results and the work of other researchers (e.g. Child, 1994; Warner, 1993; Zhao, 1995).

The survey also indicates that ownership type does have an impact on some HR practices. In general, SOEs and FIEs had more HR practices than COEs and PIEs, which includes having a separate HR department, conducting a series of HR activities such as formulating HR plans and relevant policies, and assuming responsibilities for HR functional areas. This reflects a formal management system in SOEs that used to be controlled by the government. Although SOEs now have more autonomy to conduct their own HR practices, they are still strongly influenced by the government or shadowed by old legacies, such as the existence of labour allocation and equilibrium-oriented compensation practices as revealed by the survey. This may explain why SOEs are facing a more turbulent business environment than other types of enterprises, with increasing market competition and less government protection during the enterprise reform.

With respect to FIEs, these enterprises had more senior managers involved in HR practices, and offered more or better HR activities than COEs and POEs, such as off-

the-job training, management development, and the use of performance appraisal for development and communication purposes in addition to administration. This could be the influence of both the state enterprises and foreign companies involved in their Chinese subsidiaries. The FIEs surveyed all had partnership with SOEs and their HR managers were recommended by the Chinese partners. This may explain their inheritance of some practices from SOEs, such as the incorporation of political background in their selection criteria. However, they had much less interference from the government compared with other types of enterprises. For example, they were less frequently required to conduct HR planning by the local government or to design their wage packages according to state regulations, they received the least amount of government-allocated labour, and had many more employees on contract when the labour contract system was first introduced. FIEs also carried less burden in terms of providing welfare for their employees. All these factors have contributed to their higher productivity, and their HR departments were perceived to be more effective than in other types of enterprises.

Compared with SOEs and FIEs, COEs conducted fewer HR activities, such as lacking written job analysis and formal assessment criteria and methods. This reflects the loose control that the government has over COEs and also the informality of their management practices. While COEs had less dependence on the state, they were still affected by government policies and regulations to a greater degree than POEs and FIEs. This was observed in their acceptance of government allocated labour and adoption of government policies regarding compensation practices. The results also indicate that HR departments in COEs were perceived to be the least important and least effective by respondents in contrast to other types of enterprises. However, as



part of the public sector, COEs are experiencing radical reform like SOEs, which may lead to more emphasis on the HRM function in the future.

Similar to COEs, POEs had fewer HR practices than SOEs and FIEs. This could partly be attributed to their short history, small size and more family-oriented environment. However, POEs enjoyed more autonomy than COEs in terms of staffing and compensation practices. POEs paid the least attention to the political background of HR managers and candidates for jobs, and enjoyed more flexibility in their hiring practices. POEs also tried to link rewards more closely to individual performance and enterprise profitability rather than to group performance and attendance. However, POEs made the least investment in employee training and development although their respondents expected a substantial increase in the future.

Finally, this research has identified some issues emerging for the future. According to General Secretary Jiang Zemin's report at the 1997 Party's National Congress, China will continue its economic restructuring and implementation of economic development strategies over the late 1990s into the first decade of the 21<sup>st</sup> century. These strategies include the development of diverse forms of ownership with public ownership in the dominant position, the introduction of a joint stock system into enterprises, and the acceleration of state-owned enterprise reform. The joint stock system has been especially encouraged to separate ownership from management and to help raise the efficiency and productivity of enterprises (*Documents*, 1997). These strategies together with the government's desire for enterprises to "become corporate entities and competitors adaptable to the market" (*Documents*, 1997: 20) have become driving forces for enterprise reform in China. Within such a context, three questions arise.

First, while enterprises are required to select qualified candidates in order to improve enterprise performance, is it possible to retrench redundant employees without a well-established free labour market and a national welfare system that will ensure a basic living standard for those to be laid off? Second, while a new compensation system is needed to help improve productivity, can this system be established without proper job analysis, an objective performance appraisal system and a close link between work and pay? Finally, can HRM develop without complementary reforms in other areas such as ownership structure and social security? When the PRC was founded in 1949, the government adopted a 'three into one' system which mixed employment, wages and welfare (Huang & Yang, 1987). This policy forced enterprises, especially those in the public sector, to evenly distribute subsidies and allowances to their employees. Therefore, while HR practices need to be increased or improved, they depend on reforms in other fields, such as releasing the SOEs' heavy burden of social welfare (Liu, 1996) and converting the implicit unemployment or underemployment rate inside enterprises into an explicit unemployment rate in society.

## **CHAPTER 11**

### **DISCUSSION AND CONCLUSION**

#### **11.1 Chapter Objectives**

This chapter has two broad objectives. First, the research findings obtained from both the qualitative case studies and quantitative surveys are analysed and discussed in relation to the three research questions posed in this thesis. Second, three major implications of the research findings are drawn for HRM development in China's industrial enterprises. The first implication relates to government regulation of enterprises. The second implication applies to research on HRM in China in terms of theory development, areas for further research, methodology and empirical investigation. A HRM model is proposed as a contribution of this research to theory development, and limitations of this thesis are also identified. The last implication focuses on HR practices, emphasising the significance of training the Chinese workforce for new challenges in HRM and highlighting the issues of transferring HR practices from overseas to foreign-invested enterprises in China.

#### **11.2 Analysis of Findings in Relation to Research Questions**

The primary purpose of this thesis was to explore the emerging role of HRM in China's industrial enterprises. There were three specific aims: first, to enhance the understanding of HRM in China's industrial sector by offering empirical evidence of past and current practices across the major HR activities, and indicating

developmental trends in HR practices; second, to contribute to the research literature on HRM in China by exploring HR practices across enterprises with four types of ownership to investigate the impact of ownership forms on HRM; finally, to propose a HRM model for China's industrial enterprises which illustrates possible paths of HRM development. To this end, three related research questions were developed based on a review of current literature (Chapters 2-4), and then investigated through four major case studies and survey questionnaires (Chapters 6-10). The analysis of each individual case and discussion of survey results alone are just part of the inductive theory-building process. To further strengthen the theoretical outcomes, a comparative analysis across the four cases and surveys incorporating both qualitative and quantitative studies is necessary to enable the integration of research findings obtained from different research methods. Therefore, the following three sections will discuss in turn the research findings relevant to each of the three research questions.

### **11.3 Major Changes in HR Practices in Chinese Industrial Enterprises**

The first research question posed in this thesis is, *"How were human resources in Chinese industrial enterprises managed before and after the commencement of economic reform with respect to major HR activities, including: human resource planning; recruitment and selection; performance appraisal; compensation and welfare; training and development; and labour relations"*? The case studies in Chapters 6 and 7 investigated HR practices before and after the commencement of economic reform in Chinese industrial enterprises with state and collective ownership, while the case studies in Chapters 8 and 9 examined HR practices since the reform in enterprises with private and joint foreign ownership. In addition, the survey results

discussed in Chapter 10 detailed the current HR practices across the four types of enterprises. To facilitate the response to the first research question, integrated results from both the qualitative and quantitative studies are summarised in Table 11-1.

**Table 11-1 Summary of the research findings: the past, present and future perspective of HR activities in Chinese industrial enterprises**

HR activities	Past	Present	Future Perspective
HR planning	<ul style="list-style-type: none"> <li>◆ non-existent at the enterprise level;</li> <li>◆ enterprises accepted people as allocated;</li> <li>◆ not allowed to fire surplus employees;</li> <li>◆ limited by the quota system for cadres</li> </ul>	<ul style="list-style-type: none"> <li>◆ enterprise-based planning mainly used as a means to control employee numbers;</li> <li>◆ often ad hoc and informal;</li> <li>◆ short-term oriented;</li> <li>◆ decided by top management;</li> <li>◆ may still be constrained by the quota system for cadres</li> </ul>	<ul style="list-style-type: none"> <li>◆ job analysis needs to be conducted or specified for HR planning;</li> <li>◆ need for long-term planning that aligns with business strategy;</li> <li>◆ need planning for retrenchment</li> </ul>
Recruitment & selection	<ul style="list-style-type: none"> <li>◆ non-existent at the enterprise level;</li> <li>◆ nomenclature system for cadres;</li> <li>◆ labour allocation system for both white- and blue-collar employees;</li> <li>◆ 'iron rice bowl' - lifetime employment</li> </ul>	<ul style="list-style-type: none"> <li>◆ contract-based hiring;</li> <li>◆ firing is controlled by the government;</li> <li>◆ labour allocation can still be observed;</li> <li>◆ personal competency is prioritised before political background;</li> <li>◆ written tests are used more than interviews;</li> <li>◆ connection and nepotism still play a role in spite of the emphasis on individual merit</li> <li>◆ lack of a source of professional managers</li> </ul>	<ul style="list-style-type: none"> <li>◆ job descriptions should be used in formulating selection criteria;</li> <li>◆ need to improve selection criteria and methods;</li> <li>◆ HR managers need to be trained to help other managers in selecting people with special skills;</li> <li>◆ Should senior managers still be appointed by the government or selected from the market?</li> </ul>
Performance appraisal	<ul style="list-style-type: none"> <li>◆ mainly for cadre promotion or transfer;</li> <li>◆ criteria were vague and politically oriented;</li> <li>◆ conducted annually;</li> <li>◆ self- and superior-based, no formal assessment form;</li> <li>◆ 'iron post' for cadres</li> <li>◆</li> </ul>	<ul style="list-style-type: none"> <li>◆ a shift from political-oriented to results-oriented criteria;</li> <li>◆ more 'hard' criteria for production workers whose tasks can be quantified;</li> <li>◆ 'soft' criteria for non-production employees, such as managerial staff;</li> <li>◆ mainly for bonus distribution;</li> <li>◆ lacking feedback</li> </ul>	<ul style="list-style-type: none"> <li>◆ need objective and specific performance criteria for all employees;</li> <li>◆ should also be used for communication, training and development in addition to bonus distribution;</li> <li>◆ assessment methods need to be improved</li> </ul>

**Table 11-1 (continued) Summary of the research findings: the past, present and future perspective of HR activities in Chinese industrial enterprises**

HR activities	Past	Present	Future Perspective
Compensation	<ul style="list-style-type: none"> <li>◆ 'iron wage' system;</li> <li>◆ centrally fixed;</li> <li>◆ egalitarian;</li> <li>◆ small differentiation between scales</li> </ul>	<ul style="list-style-type: none"> <li>◆ total payroll controlled by the government;</li> <li>◆ widely adopted position-and-skill wages;</li> <li>◆ bonus became an important part of compensation;</li> <li>◆ bonus is more related to performance, but is often equally distributed</li> </ul>	<ul style="list-style-type: none"> <li>◆ need job analysis to justify position-and-skill wages;</li> <li>◆ linked more to individual performance;</li> <li>◆ need to increase gaps between high and low performers</li> </ul>
Training & development	<ul style="list-style-type: none"> <li>◆ centrally planned and unified;</li> <li>◆ apprenticeship - a commonly used method for training;</li> <li>◆ political education formed a major part of training</li> </ul>	<ul style="list-style-type: none"> <li>◆ more on-the-job than off-the-job training;</li> <li>◆ more technical than behavioural training;</li> <li>◆ less political education;</li> <li>◆ reactive to solve emergent problems in production;</li> <li>◆ lack of systematic training;</li> <li>◆ treated as cost rather than investment</li> </ul>	<ul style="list-style-type: none"> <li>◆ need to increase training for employees, especially managers;</li> <li>◆ behavioural training needs to be offered to increase employees' adaptability;</li> <li>◆ need training to increase employees' employability;</li> <li>◆ training for career development needed</li> </ul>
Labour relations	<ul style="list-style-type: none"> <li>◆ full time employees in the public sector were highly unionised;</li> <li>◆ trade unions acted as transmission belt between Party and employees</li> </ul>	<ul style="list-style-type: none"> <li>◆ the establishment of trade unions is legitimised and encouraged in different types of enterprises;</li> <li>◆ trade unions act as management assistant and employees' caretaker;</li> <li>◆ focus on employee welfare</li> </ul>	<ul style="list-style-type: none"> <li>◆ liaison between management and employees;</li> <li>◆ to protect employees' interests and rights</li> </ul>

### 11.3.1 HR practices before the commencement of economic reform

Table 11-1 covers six major HR activities and indicates how they were conducted in industrial enterprises in the past (i.e., before the commencement of economic reform) and present (i.e., since reform), and how they were expected to develop in the future. It is evident from Table 11-1 that before the economic reform, some HR practices including HR planning, recruitment and selection were simply non-existent at the enterprise level as illustrated by the case enterprises TeleCo (Chapter 6) and RadioCo (Chapter 7). This was the result of a highly centralised planning system and various constraints imposed on enterprises by the government, such as labour allocation and cadre appointment. Some other HR activities were planned by the government and

implemented by the enterprises, such as compensation with its centrally fixed wage scales and unified training. Such 'puppet-like' management practices (discussed in Chapter 2) were observed in both TeleCo and RadioCo.

HR activities such as performance appraisal and labour relations were practised but exhibited typical Chinese features. These included politically oriented assessment criteria, cadre-centred appraisal and the 'transmission belt' role played by trade unions. As a result, the traditional personnel and labour administration characterised by the three 'iron practices' as reviewed in the literature and observed in the case studies (i.e., iron rice bowl - lifetime employment; iron post - cadre tenure position; and iron wage - fixed wage scales) either deprived enterprises of their ability to conduct HR activities or made these activities redundant. For example, performance appraisal failed to play the role expected of it in the West because cadres maintained their tenure positions and workers could stay permanently with enterprises regardless of their performance unless they committed crimes. In addition, training other than apprenticeship was often initiated and organised by the government and usually emphasised political education. These phenomena are summarised in the traditional PRC model of personnel and labour administration in Figure 4-1 and also reflected in the case studies reported in Chapters 6 and 7.

### **11.3.2 Current HR practices during economic reform**

The research findings relevant to current HR practices indicated a transition from traditional personnel and labour administration to HRM as used in the Western market economies in several areas. First, although it is still early to say that the three iron practices have been eliminated, there is a definite trend away from these practices with

the increasing use of contract-based hiring, more results-oriented assessment, enterprise-determined and some performance-related compensation. The implementation of the employment contract system has accelerated the abolishment of the iron rice bowl, and the subsequent emergence of a free labour market has facilitated two-way selection (*shuangxiang xuanze*) and more competition-based appointment and employment (*jingzheng shanggang he jiuye*). With the utilisation of more job-related performance criteria and results-oriented assessment, together with the blurring of boundary between cadres and workers, fewer cadres hold tenured positions as their promotion or demotion has become more closely linked to their performance. Similarly, wages are also more dependent on an enterprise's operation and profitability as well as individual skills and performance. Discrepancies observed in current wage packages of different enterprises and employees also indicate a reduction in the traditional egalitarianism with regard to compensation. These findings are consistent with the observation of other researchers that there is greater acceptance of wider reward disparities based on individual performance (Aiello, 1991; Ding et al., 1997; Walder, 1991; Wang & Mobley, 1999, Zhao, Y. 1995).

Second, most HR practices are now selected, planned and implemented at the enterprise level with different degrees of autonomy and various styles and orientations. It appears that enterprises, especially those in the non-public sector, experience less interference from the government in their reforms. For example, the government has relaxed its control over practices such as issuing quota limits on cadres, allocating employees to enterprises, and enforcing certain types of wage packages or offer specified welfare benefits. The changes have obviously left enterprises with more discretion to conduct HR activities according to their own



needs. The survey results shown in Table 10-4 indicate that different HR activities were conducted by enterprises to a varying extent. With regard to HR planning, for example, nearly half of the survey respondents indicated that their enterprises had such a practice as did all of the case enterprises investigated. Although the focus of planning varied between the enterprises, ranging from staffing to replacement or retrenchment and production development, the majority of enterprises used HR planning as part of their overall HRM strategy. Another example of HR practice at the enterprise level is the design of wage packages (including different percentages of base pay and bonuses) as employee incentives. Some enterprises used skill-related pay to encourage employees to update their knowledge and skills (e.g., in the cases of TeleCo - Chapter 6 and RadioCo - Chapter 7), some offered more bonuses to motivate employees (RadioCo and ElectroCo - Chapter 8) while others offered more competitive wage packages (CableCo - Chapter 9).

Third, current HR practices have become less politically oriented as revealed by both the qualitative and quantitative research results. For example, fewer political study programs are organised by the HR department (especially in the non-state sector as indicated in Table 10-4) and fewer political requirements are listed in selection and assessment criteria. Furthermore, HR practices employ less disparate criteria to classify cadres and workers, as this distinction has become less relevant in many enterprises, especially in the private sector. Job analysis is also increasingly used to assist other HR practices such as planning, selection and compensation.

Finally, the HRM function of attracting, retaining and developing competent employees to achieve business objectives as defined in the West (Schuler, et al., 1992)

is being gradually recognised by more enterprises. Although HR activities with the same or similar titles are being tried or conducted with various formats, HRM is shifting, at a slow pace, from being merely administrative and politically/ideologically oriented to somewhat strategic and business-related. This trend was observed in some of the case enterprises. TeleCo, for example, was using HR activities to help nurture a new enterprise culture as part of the business strategy to change its loss-making status. These activities included the adoption of written tests for selection, the formulation of quantified criteria for assessing workers' performance and an increase in the proportion of bonus pay in the compensation package. CableCo was using HR practices to acquire a competitive edge by retaining loyal and committed employees. Its selection criteria were more merit-based and its selection methods consisted of both tests and interviews. It also adopted flexible wage scales to link individual performance to compensation and tried to keep wage packages confidential to reduce jealousy. Furthermore, HR managers in CableCo were involved in the formulation of an organisational business strategy, which supported the survey findings that more HR managers in FIEs were members of the senior management team and participated in decision-making on key strategic issues (see Table 10-5).

However, the shift from traditional personnel administration to HRM as defined in the West is only partial and in its early stages as China is still undergoing the transition from a planned to a market-driven economy, with the current practices grafted on to the old system (Warner, 1995, 1998b). The tenacity of tradition and incomplete legislation contribute to the continuation of past practices. Some traditional practices have not been abandoned, such as the practice of job inheritance (*dingti*) (see Section 10.4.3), small differentiation between wage scales in the public sector (see Chapters 6

and 7), and a reactive strategy in employee training, as observed in the four case enterprises. In addition, HR managers are still engaged mostly in administrative work, including record-keeping, conducting performance appraisals mainly for bonus distribution, and managing payrolls (see Table 10-4). Some HR practices have only been partially or nominally used. HR planning, for example, is being used by more enterprises but is often *ad hoc*, informal, short-term based and, in the public sector, related more to replacement than retrenchment. Similarly, while performance appraisal and compensation are used for the purpose of offering incentives, they still lack objective assessment criteria and methods as well as a close link to performance. These results support the findings of other researchers that HRM in China is still more operational than strategic (Benson et al., 1998; Child, 1994).

Furthermore, the influence of the government over enterprises and their HR practices can still be observed even though it is diminishing. In Chapters 6 and 7, it was observed that the practice of a nomenclature system for senior level managers still existed. It was also clear in Chapter 6 that the enterprise had limited recruitment ability because of the quota for cadres imposed by the government. Government interference in enterprise HR practices was also observed in the allocation of graduates (Chapters 6-8), the control of total payroll for each enterprise (Chapters 6 and 7), and the organisation of training programs (Chapters 6 and 7).

Similarly, as noted by Yu and Xin (1994), some training programs were offered simply to fulfil government requirements rather than to assist production needs. The case studies indicate that managers were reluctant to invest in training if it was not legally required. In the case of TeleCo, the government requirement for SOEs to invest

1.5% of the total payroll in training was ignored when the enterprise experienced financial losses. At RadioCo and ElectroCo, where the enterprise was not required to invest in training, only new employees were offered some training. Although the introduction of skill-related wages put pressure on employees to increase their skill level, the enterprises encouraged employees to use time outside work for further training rather than offering on-the-job or off-the-job training. CableCo was the only exception in that 1% of its total payroll was used for training as required by the government for all foreign-invested enterprises. The absence of a legal requirement for training or lack of enforcement of such a requirement when the case studies were conducted might partly explain the reluctance of managers to invest in employee training.

In summary, before the commencement of the reforms, human resources in Chinese industrial enterprises were managed more by the government than the enterprises (see the traditional PRC model in Figure 4-1), which partly explained why SOEs were called state-run enterprises before 1994 (see Section 6.1). This situation has changed greatly since the reforms began. However, current HR activities demonstrate the coexistence of some radical changes and the legacy of some old practices. Thus, the findings of this thesis in regard to the first research question support the observation of Warner (1995: 161) that HRM in China had only limited family resemblance to Western HRM in some situations - a hybrid form, which could be described as "Western HRM with Chinese characteristics", has evolved.

## 11.4 Impact of Ownership Forms on HRM

The second research question of this thesis is "*What impact does ownership type have on HR practices in Chinese industrial enterprises*"? The literature reviewed in Chapter 2 explained two organisational practices accompanying the planned economy of Mao's regime. One was the formation of larger production units with predominant public ownership (*yida ergong*, see Section 2.2.3), the other was state ownership of enterprises with government control over management (*zhengqi heyi*, see Hughes, 1998; Warner, 1995). The government thus exerted strong control over enterprises through its planning system and the various restrictions, while ignoring the role of the market. These practices have left substantial impact on enterprise management, particularly in the way that human resources are managed. With reforms in the ownership structure in the late 1970s and the emergence of enterprises with non-public ownership (see Section 3.2.4), managers have gained increasing control of their enterprises' operations, leading to experimentation with various management practices (see Section 3.4) and changes in HR practices (see Chapter 4). This section integrates the relevant research findings from both the case studies and the surveys to address the second research question.

The impact of ownership type on HRM is influenced by the various constraints imposed on each type of enterprise by government controls, political and ideological influences, and the legacy of traditional practices. Table 11-2 summarises the major constraints on the four types of enterprises under study.

**Table 11-2 The impact of ownership forms on different types of enterprises**

Variables	SOEs	COEs	POEs	FIEs
Case enterprises (n = 4)	TeleCo	RadioCo	ElectroCo	CableCo
People employed in each case enterprise in 1993 (see Chapters 6-9)	438	760	76	184
Production output value per head in each case in 1993 (yuan)	27,000	78,950	197,000	410,000
Number of survey respondents from each type of enterprises (n = 440)	221	93	28	98
Production output value per head in 1993 (see Section 10.2.1) (yuan)	68,000	88,220	151,500	219,200
<b>Government constraints:</b>				
◆ Quota control for cadres	✓	≈	×	×
◆ The nomenclature system for senior managers	✓	✓	×	≈
◆ Allocation of labourers	✓	✓	≈	≈
◆ Government controlled retrenchment	✓	✓	×	×
◆ Control of total payroll	✓	✓	×	×
◆ Government controlled wage scales	✓	✓	×	×
◆ Government required HR planning	✓	✓	≈	≈
◆ Government initiated and organised training programs	✓	✓	×	×
<b>Political/ideological constraints:</b>				
◆ Political requirement for HR managers	✓	✓	≈	≈
◆ Political requirement for new recruits	✓	≈	×	≈
◆ Political-oriented training programs	✓	✓	≈	≈
<b>The legacy of some other traditional practices:</b>				
◆ Minimal differentiation between wage scales	✓	✓	×	×
◆ More permanent than contract employees	✓	✓	×	×
◆ Supplying housing as one of the welfare benefits	✓	✓	≈	≈
◆ Trade unions still play old roles ('transmission belt', caretaker).	✓	≈	≈	≈

Notes: ✓ = this constraint was observed;

≈ = such a constraint was observed to some extent

× = this constraint was not observed

Table 11-2 illustrates that the production output value per employee in 1993 was below 100,000 yuan for COEs and lower still for SOEs. While other indicators could also be considered, such as sales revenue and net profits after tax, the production output value per employee in this study sufficiently highlights the common problem of low productivity in the public sector, especially in SOEs (see Xu & Wang, 1999; Yabuki, 1995; Zhao, 1995; Zhu & Dowling, 1994). Apart from their low production

output value per head, these two types of enterprises were subject to many similar constraints (see ✓ in Table 11-2). In contrast, POEs and FIEs had higher values of production output per head, and both appeared relatively free from constraints (see ✕ and ≈ under these two types of enterprises). Therefore, the four types of enterprises were classified into two sectors, public (SOEs and COEs) and non-public (POEs and FIEs). The following sections study the impact of ownership forms on HR practices in the public and non-public sectors respectively. HR practices in different types of enterprises are then highlighted to further illustrate ownership impact on HRM.

#### **11.4.1 Impact of public ownership on HRM**

Despite many years of reform, public enterprises still experienced numerous government constraints at various levels (see Table 11-2). First, the control of cadres through quotas was emphasised in TeleCo, a SOE, and the survey results in Table 10-3 indicate that far more SOEs managed cadres and workers separately to enable better control over the cadres. The nomenclature system for senior managers was still in practice in both TeleCo and RadioCo, a COE. Second, although labour allocation was more prevalent in TeleCo than in RadioCo, the survey results indicate that both SOEs and COEs had a higher number of government allocated employees than POEs and FIEs (see Table 10-17). Third, for both TeleCo and RadioCo the local government still held control over the retrenchment of redundant employees, the total amount of payroll, the wage scales and their increases. Traditionally, wage scales at SOEs were fixed by the government at a higher level than that in COEs regardless of the performance of the enterprise. This explains why managers and employees at RadioCo complained about their lower wage scales compared with their counterparts in SOEs (see Section 7.5.4). Fourth, the HR planning process required by the government was

not observed in the case studies, but the survey results reveal that more public than non-public enterprises conducted HR planning merely because of government requirement (see Table 10-6). Finally, government initiated and organised training programs have become less common since the reforms began. Both TeleCo and RadioCo had to send people to training programs organised by their authority (the Post Bureau in the case of TeleCo and the local government in the case of RadioCo) even though the programs were not necessarily appropriate for the enterprises (see Section 6.5.5 and 7.5.5).

Table 11-2 also reveals three of the political and ideological constraints on the public enterprises. First, HR managers were required to be politically reliable, which was supported by the survey results (see Table 10-3). Although this phenomenon was also observed in the FIEs surveyed, it was because the foreign investors of these enterprises had formed joint ventures with SOEs and the HR managers of the resulting FIEs had been recommended by the Chinese partners. Second, while HR managers had to be politically reliable, was there such a demand on the other employees 15 years after Mao's regime? In TeleCo and RadioCo, the selection criteria focused on qualifications and skills, not political reliability. Nevertheless, political reliability was emphasised for managerial cadres in TeleCo, and the survey results indicate that SOEs emphasise the political background of job applicants not only in their current practice ('is now') but also in the future ('should be') (see Section 10.4.3). This indicates that state enterprises are more affected by political/ideological influence than collective enterprises. Finally, the constraint of political-oriented training programs was examined. The findings from both the case studies and the surveys reveal that training focused more on technical skills (e.g., to improve performance on particular tasks, to



remove performance deficiencies and to update technical knowledge and skills) than on behavioural abilities (e.g., interpersonal and team work skills). Few political training programs were reported in the case studies. However, they have not entirely disappeared and the survey results disclose that more HR departments in SOEs organised political studies than those in other types of enterprises, especially POEs (see item 11 in Table 10-4).

The third type of constraint on enterprises is the legacy of traditional practices (see Table 11-2). Minimal wage differentials between pay scales was one of the features of the old 'iron wage' system (see Section 4.5.1). While the traditional wage system was undergoing reform and various compensation packages were being tried, there was still no substantial gap between wage grades. This was recognised as an obstacle to offering incentives to high performers in both TeleCo and RadioCo (see Section 6.5.4 and Section 7.5.4). The legacy of another iron practice, iron rice bowl or lifetime employment, was more prevalent in public enterprises than in non-public enterprises as revealed by the survey results (see item 3 in Table 10-37). Although the practice of lifetime employment has been greatly reduced since the implementation of the contract system in 1996, it has not been completely eliminated for several reasons. These include the lack of autonomy of public enterprises, especially SOEs, to retrench surplus employees in the absence of a nation-wide social security system to look after unemployed people. Another reason for the greater number of permanent employees in the public sector, especially in SOEs, is that accommodation is supplied to employees as part of the enterprise's welfare benefits. This is evident in the case study of TeleCo as well as in the survey results, which demonstrated that more SOEs supplied a housing subsidy to employees (see Table 10-29). The traditional roles played by trade

unions, as a transmission belt and caretaker, were evident in both TeleCo and RadioCo. They were the result of strong control by the Party and government over unions which were more prevalent in SOEs than other types of enterprises. The weak role of trade unions might also contribute to lower employee participation in the management process (see Table 10-38).

The various constraints on SOEs and COEs because of their public ownership have had a profound impact on their HR practices. The findings of this study reveal, for example, that more SOEs conducted the series of HR practices listed in the survey questionnaires than did COEs (e.g., see Table 10-4). SOEs also implemented some HR activities in a more organised manner. For example, while TeleCo (a SOE) used written tests for selecting employees and established criteria for performance appraisal, RadioCo (a COE) selected job applicants mainly through informal talks and assessed employees on attendance and fulfilment of workloads. Such differences could be explained by the different evolution of the enterprise type. First, SOEs used to be within the state planning system with its management conducted by the government apparatus (*zhengqi heyi*). They were thus under tighter control from the government at various levels and established a more formal bureaucratic system. Government requirements led them to conduct more HR activities that were often administrative-oriented. Second, many SOEs have become joint venture partners with foreign companies, which could facilitate the adoption of some HR practices commonly used in the Western market economies.

However, while SOEs appeared to conduct more HR practices than COEs, HRM in public enterprises in general still retained many characteristics typical of traditional

personnel and labour administration. This could be observed in the tighter control over cadres in these enterprises (e.g., the separate management of cadres and workers), the quotas set for cadres, inclusion of political reliability as a selection criterion, and the continuation of the nomenclature system. The compensation policies and practices adopted by these enterprises also reflected interference by the government and the legacy of egalitarianism, which includes government-controlled rather than market-determined wage scales, packages and increases, as well as a weak link between bonuses and performance. Training programs offered merely to fulfil government training quotas rather than to satisfy the needs of the enterprise are another example of this legacy. The most obvious practice retained from the traditional system was lifetime employment and enterprise-supplied welfare benefits including housing. Public enterprises, especially SOEs, had been required by the state to combine employment, wages and welfare since the founding of the PRC in 1949 (see the 'three into one' system in Huang & Yang, 1987). Obviously, it is difficult for enterprises to retrench their surplus employees without a national social security system. Without the freedom to hire and fire people on the basis of their business requirements, enterprises will find it difficult to achieve a key goal of HRM, namely, to attract, retain and develop key employees.

Another significant impact of public ownership on HRM could be the lack of incentives and training for managers to learn and adopt new and effective HR practices. This could partly be attributed to the nomenclature system and partly to other HR practices applied to cadres. Under the nomenclature system, the government appointed politically reliable senior managers who were often transferred to another enterprise if they were unsuccessful (as occurred with former directors of TeleCo). For

senior managers, performance became less important than maintaining a close relationship with the government. Managers were therefore reluctant to take risks, refraining from adopting different HR policies or practices to improve performance or to radically change the traditional system. In addition, wage scales for managers in China were still not performance-related but rather guided by government policy (see Chapters 6 and 7). As managers did not have the authority to allocate residual gains when the enterprise performed well, they "had no incentives to respond to market signals" (Hughes, 1998: 69), and were discouraged from using their initiative or creativity to introduce and implement new HR practices (e.g., Zhao & Ni, 1997; Zhao, et al., 1998). The lack of HRM training for managers is another issue to be discussed in a later section.

In summary, the case studies and survey results illustrated the various constraints on SOEs and COEs due to their public ownership and the consequent impact on their HR practices. Although government involvement and controls often led to more HR practices in SOEs, the fact that SOEs had the lowest production output value per head in 1993 (see Table 11-2) raises the question of the effectiveness of their HR practices.

#### **11.4.2 Impact of non-public ownership on HRM**

Evident in Table 11-2, non-public enterprises including POEs and FIEs were subject to a much lower level of constraint (see codes: ✕ and ≈) than public enterprises. This section examines each type of constraint and then focuses on the impact of non-public ownership on HRM in the enterprises.

When examining government constraints listed in Table 11-2, it is evident that non-public enterprises did not have government quotas for cadres. Furthermore, they were free from government control over retrenchment, total payroll, and wage scales adjustment. The distinction between cadres and workers had also become blurred in non-public enterprises with the actual emphasis on the individual, the job position and the responsibility that the individual has assumed. This has allowed more flexibility in job allocation and the management of human resources. Management possessed full autonomy to hire and fire employees as well as to design their own wage packages. The survey results also show that fewer POEs and FIEs than public enterprises adhere to the government requirement of a floating wage or positional allowances (Table 10-27). The government initiated and organised training programs were not found in either ElectroCo or CableCo, where training was offered on the basis of the production needs of each enterprise. In addition, the nomenclature system was not practised in ElectroCo as its owner and General Manager had full autonomy to appoint all managers.

However, POEs and FIEs were not completely exempt from government control. Table 11-2 indicates that the government could still appoint senior managers in FIEs. This occurred particularly in FIEs that were joint ventures with SOEs, as the Chinese general or deputy general managers were usually nominated or recommended by the Chinese partner and appointed by the government (see CableCo in Chapter 9). Labour allocation by the government was not observed in the case studies of non-public enterprises, but the survey reveals that such a practice has not been eliminated even though it was less used than in the public enterprises (see Table 10-17). Government

required HR planning had also become quite rare, especially in FIEs, as indicated by the survey results (item 8 in Table 10-6).

As for political and ideological constraints, Table 11-2 reveals that non-public enterprises, especially POEs, experience fewer such constraints. In ElectroCo, the selection criteria were mainly based on job-related knowledge and skills. The General Manager also personally selected senior managers and technical staff. Political reliability for new recruits was ignored in ElectroCo. Nevertheless, the survey results disclose that political requirements existed for HR managers and political-oriented training programs were present in POEs and FIEs (see Table 10-3 and item 11 in Table 10-4), although these two constraints were not observed in the case studies. While the government had much less control over non-public enterprises than over public enterprises, compared with POEs, FIEs were still subject to some constraints. One explanation for this situation could be that the FIEs surveyed had all formed joint ventures with SOEs. Another reason could be the fact that the enterprises were in transition, as explained by a foreign general manager of a joint venture in China:

Our enterprise is undergoing a transition from a state-owned enterprise to a foreign-managed joint venture. The change is being deliberately managed at a steady pace to ensure that it is not too quick for the local people to understand. Consequently many practices and philosophies that shall be phased out are currently still in place.<sup>20</sup>

Consistent with this general manager's explanation, the survey results disclose that political requirement for new recruits was only emphasised by FIEs currently ('is now') rather than in the future ('should be'). In contrast, SOEs put emphasis on political requirement both now and in the future (see Section 10.4.3).

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<sup>20</sup> This comment was made in addition to the questionnaire by the General Manager of a Sino-Australian joint venture in Shanghai in late 1994.

Other traditional practices presented in Table 11-2 were either absent or only partially found in POEs and FIEs. First, minimal differentiation between wage scales was not observed in either of the case studies. Although the gaps between high and low performers were higher at ElectroCo than at CableCo, they were the result of an additional bonus system rather than the wage scales, as both enterprises possessed full autonomy to design their own wage packages and adjust wage scales freely. Second, the situation of having more permanent than contract employees did not exist in these types of enterprises, as evident in both case studies and the survey results (see items 3 and 4 in Table 10-37). This is because the contract system was initially tried in the non-public enterprises and then introduced to other types of enterprises. Another reason could be the short history of non-public enterprises, which enabled them to adopt new practices such as the labour contract. Supplying employees with accommodation was not practised in the two case enterprises. However, the survey results indicate that some non-public enterprises did provide a housing subsidy (Table 10-29). With regard to the traditional roles of trade unions, the findings varied. Although there was no trade union at ElectroCo, the survey reveals that many non-public enterprises had unions (item 1 in Table 10-37). In addition to its traditional roles as the transmission belt and caretaker, the trade unions in non-public enterprises also assist Chinese managers to protect the rights and interests of Chinese employees as occurred in CableCo.

Because of their non-public ownership, POEs and FIEs were less influenced by the government, which was partially reflected in the survey results where POEs and FIEs indicated that they experienced much less impact from changes in government regulations than other public enterprises (see item 3 in Table 10-1). This was because

non-public enterprises started their businesses in a more market-oriented economy and had little or no special treatment such as soft budget constraints or subsidies from the government. The non-public ownership type had considerable impact on the HR practices in these enterprises. The most obvious example was that the three iron practices were much less prevalent in these enterprises, especially in POEs. For example, more employees from POEs and FIEs were employed on a contract basis (see item 4 in Table 10-37 and Chapters 8 and 9) while few of them were supplied with accommodation by the enterprise (see Chapters 8 and 9). Moreover, bonuses were distributed more on the basis of individual rather than group performance (see Table 10-28) and cadres were replaced by managerial staff whose positions were determined by competency and performance (see Chapters 8 and 9).

While moving away from the three iron practices, POEs and FIEs did not, overall, have similar HR practices. Fewer POEs than FIEs had a separate HR department (see Table 10-3 and Chapter 8), and their HR practices were often informal and non-systematic. Table 10-4 reveals that HR departments in POEs currently conducted the fewest HR activities compared with FIEs and other public enterprises. Furthermore, significant differences were observed in activities such as 'training', 'job analysis and evaluation', 'being responsible for HR policies', 'conducting HR planning' and 'wage administration' (see items 7, 4, 2, 1 and 6 in Table 10-4). The survey results also indicate that POEs offered much less off-the-job training, training for technical/professional skills and management development than FIEs (see Table 10-30). At ElectroCo there was no plan at all for employee training. In addition, job analysis was conducted by fewer POEs and less frequently used for the purpose of job evaluation than FIEs (Tables 10-7 and 10-8).



The *ad hoc* HR practices in POEs evident in this study have also been observed by other researchers (Shaw, et al., 1993; Zhao, et al., 1998). Shaw and colleagues have noted various features of HR practices in the Chinese POEs, including less reliance on formal performance appraisal and feedback, low levels of explicit job analysis and staff training, a strong emphasis on the management of extrinsic rewards, and few welfare and fringe benefits, all of which were observed in either our case studies or the survey results. An authoritarian or paternalistic style of management, lack of confidence in government policies and the short history of POEs have all contributed to their informal style of HR practices (Shaw, et al., 1993; Zhao, et al., 1998; also see Section 8.2). Although POEs appeared to be more efficient than public enterprises in terms of production output value per head (see Table 11-2), they were usually not obliged to supply welfare benefits to employees and had few or no retired employees to support, in contrast to public enterprises. While POEs could attract competent people by offering better wage packages that were more related to individual performance, questions arise as to whether extrinsic rewards alone will be sufficient to achieve the goals of the enterprise and how long POEs can maintain their competitive advantage while having such informal HR practices.

Compared with POEs, FIEs usually had a more complicated ownership. The FIEs researched in this study were all jointly owned by SOEs and foreign companies, which explained why some government constraints imposed on SOEs were still present to some degree in these FIEs. This finding is consistent with the observation of Beamish (1993) that foreign companies have a stronger association with government partners in China than in other developing countries and thus tend to be obliged to retaining management practices that are a legacy of pre-reform days. Similarly, other

researchers have observed that in some FIEs, the egalitarian pay system is still practised even though the eight-grade wage structure has been abandoned (Goodall & Warner, 1997). However, many foreign partners of joint ventures have brought in various HR practices commonly used in Western market economies together with their technology and other management practices (Warner, 1998a). In CableCo, for example, the foreign partner, AuzCo, transferred some of its HR practices including merit-based recruitment and selection and performance appraisal to the enterprise as CableCo was required to use AuzCo's standards as its benchmark in production and quality control. Such a transfer might explain the survey results which indicate that FIEs consistently conducted more HR practices that bear more resemblance to Western HR practices (see Chapter 10), and their HR departments were perceived to be more effective than any other types of enterprise surveyed (item 4 in Table 10-5). Similarly, other researchers point out that connections with foreign companies could enable FIEs to adopt a more flexible HR approach, or a HRM program that incorporates more of the practices used in the market economies (Benson & Zhu, 1999; Warner, 1996d and 1998a; Zhao, et al., 1998).

To summarise, POEs and FIEs were subject to fewer constraints than public enterprises (as indicated in Table 11-2) because of their form of ownership. As a result, they had more autonomy and authority to move away from traditional HR practices such as the three iron systems. However, private ownership in China is not the same as that in the Western market economies for several reasons, including their short history, family-based business structure, small size and low-level of technology, paternalistic style of management, and short-term oriented behaviour partly due to their lack of confidence in government policies (see Section 8.2). These characteristics

of Chinese POEs have contributed to their informal and non-systematic HR practices. In contrast, FIEs have more HR practices with greater resemblance to Western HR practices, such as a close working relationship between the HR department and the senior management group on key strategic issues (item 3 in Table 10-5), and involvement of department managers in HR planning (see item 3 in Table 10-6). The production output value per head in 1993 of FIEs investigated appeared to be the highest among the four types of enterprises surveyed and substantially higher than public enterprises (see Table 11-2). This finding is consistent with the observation of other researchers (e.g., Benson & Zhu, 1999; Yabuki, 1995).

Our comparative analysis of the impact of different types of ownership on HRM based on the research findings of this study has partially supported Shenkar's (1994: 15) claim that "continuing reforms may change the situation [of traditional management practices], particularly in collective, private and foreign-invested enterprises". The results of this study suggest that it is most likely that HR practices will develop more rapidly in FIEs than in other types of enterprises, especially POEs. Although FIEs, or more precisely, foreign joint ventures with local SOEs, may still experience some restrictions or limitations from the government and subsequently maintain some traditional HR practices, they will move towards greater convergence with Western HR practices (Warner, 1996b: 41). Similarly, Benson and Zhu (1999) have noted that Chinese enterprises with strong connections with foreign companies via joint ventures while little connection with the traditional SOE system attempt to adopt more Western HR practices. Part of the explanation is that FIEs do not inherit the inefficient management system of a state enterprise, or "the burden of the past" (Tsang, 1998: 25).

## 11.5 Future Perspectives on HRM in the Chinese Industrial Sector

The third research question for this thesis is, *"What are the possible future development paths of HRM in Chinese industrial enterprises"*? The research findings relevant to this question are summarised in the third column (future perspective) of Table 11-1. In the four case studies, the employees interviewed suggested possible changes in HR practices, while the managers indicated what their future plans were for HRM. In addition, the survey respondents contrasted the extent of HR practices being used currently ('is now') to their ideal HR practices in the future ('should be'). The difference between the current and ideal practices reflects the direction of change in HRM and the possible future development paths of HRM in industrial enterprises in China. The findings are discussed in terms of each practice presented in Table 11-1.

*HR planning.* All the case enterprises acknowledged that lack of job analysis had impeded or weakened other HR practices such as HR planning and selection. Therefore, they had either started a job analysis project (e.g., TeleCo and ElectroCo), or were considering the revision of job descriptions for both managerial staff and production workers (e.g., RadioCo and CableCo). The expectation that job analysis would be used by more enterprises in the future was strongly supported by the survey results (see Tables 10-4 and 10-8). The trend for an increase in the use of job analysis to assist other HR practices (including HR planning and job evaluation) was substantiated by comparing 'should be' practices with current 'is now' practices (see Table 10-8). With regard to HR planning, although it was conducted by the four case enterprises, their managers were not satisfied with its short-term orientation and focus on quantity control (i.e., an emphasis on the control of total number of employees).

Their preference was for longer term (i.e., 3-5 years) HR planning, but this depended on whether the enterprise had a long-term business strategy and whether the management had the real authority to lay-off redundant employees. Item 1 in Table 10-4 clearly indicates a sharp increase in the intention to use HR planning in the future.

*Recruitment and selection.* The survey results indicate that this activity should be conducted to a less extent by HR managers (see Table 10-4), which was observed in some of the case studies. In the case of CableCo, the selection of new employees was conducted by functional managers with assistance from the HR manager. It was believed that allowing managers from a functional department to select job candidates for a position in that department could help achieve a better fit between the job and the candidates. A similar situation was also observed in ElectroCo, where the HR manager assisted other senior managers in selecting technical and managerial staff.

The tendency for managers to select candidates for a job in their own specialised area with assistance from the HR manager/staff may represent a trend for future recruitment and selection. The decentralisation of hiring down to the business unit conforms with the current best practice of hiring in the West (Schuler et al., 1992; Ulrich, 1998). There are three major reasons for such a trend in Chinese industrial enterprises. First, in the absence of detailed job descriptions and selection criteria, managers with specialised knowledge of a job are more likely to select appropriate candidates. Second, as revealed by the survey results, job-specific information including personal ability and skills presented at interview or tests was regarded as more important than archival biographical data (e.g., personal qualifications and file

records) both now and in the future (see Table 10-12). Job-related knowledge and experience would thus be critical during the selection process, enabling interviewers to raise the key questions or issues. Finally, insufficient training of HR managers in recruitment and selection has frequently contributed to their poor performance in selection. Traditionally, the most important attributes of HR managers were their political reliability and experience as administrators. With the emergence of a free labour market and the practice of 'two-way' selection, recruitment and selection can no longer be conducted just as an administrative task. HR managers need to acquire the professional skills of managing human resources.

Although recruitment and selection in an enterprise are expected to be linked to job analysis, using detailed selection criteria (see Chapters 6-9), senior managers working in the public sector are not always appointed by this method. In fact, many senior managers, especially those working in large-scale state or collective enterprises, are still appointed by the government. This has led to the question of whether the government should still rely on the nomenclature system or whether professional managers should be selected through fair competition in a free labour market. The survey respondents all agreed that 'marketplace competition has increased dramatically' (see Table 10-1), and it seems that enterprises need competent professional managers rather than government-appointed cadres in order to compete in a market-driven economy. Therefore, recruitment and selection should also be conducted for senior managers, including HR managers, even though this would create challenges for the current senior managers.

*Performance appraisal.* This activity was observed in the four case enterprises with future improvement expected by their managers and employees. The proposed improvements include establishing objective criteria for assessing the performance of both managerial staff and production workers rather than adopting dual criteria ('soft and hard'); offering feedback to employees for further improvement of performance; using appraisal to identify training needs; and seeking better assessment methods. These findings from the case studies were consistent with the survey results. It is evident in Table 10-4 that more enterprises had considered implementing performance appraisal, and in Table 10-20 that a substantial increase was expected in the use of appraisal for three major purposes, especially for communication and development.

However, the case studies indicate a progress in performance appraisal is dependent on the development of other HR activities such as job analysis, training and compensation. Without job analysis the entire appraisal could be left to the subjective impression of the appraiser, as observed in TeleCo for its managerial staff. Similarly, without communication between appraisers and appraisees, employees would be left ignorant of the criteria and purposes of assessment, as occurred in CableCo. This would require training not only for managers to acquire assessment skills, but also for employees to understand how to set up goals for their performance and how to communicate with appraisers. Furthermore, the practice of performance appraisal would be of little use if there was no close link between performance and compensation. The phenomenon of 'eating from the same small rice pot' (*chi xiaoguo fan*, equally distributed bonuses within a small working unit such as a department) as observed in TeleCo and RadioCo is a typical example of poor linkage between pay

and performance with detrimental impact on the effectiveness of performance appraisal.

*Compensation.* Survey (see Section 10.4.5) respondents indicated that material incentives are important in both current and future compensation practices. These included wages and welfare benefits such as various allowances and subsidies. Seniority was still regarded as one of the determinants of a wage package. However, respondents displayed preference for future payments that are individual-performance-linked and long-term-orientated, with seniority of lesser importance. These findings were also observed in the case enterprises.

In all the case enterprises, the pay system was undergoing reform, with the aim of offering incentives to employees. Different pay practices and various ways of distributing bonuses were experimented with. However, none of the enterprises was satisfied with their current compensation practice, and various suggestions for improvements were put forward. The first suggestion was to link pay and bonuses to the performance of each individual rather than the department so as to alleviate the problem of 'eating from the same small rice pot' (see Chapters 6 and 7). The second suggestion was to introduce a non-transparent compensation system (see discussion about 'unpredictable' and 'confidential' bonuses or wages in Chapters 7-9) to increase the gap between high and low performers' packages as an incentive while avoiding unnecessary jealousy (called 'red eyes' in Chinese) among workers. The research findings from both the quantitative and qualitative studies indicate that future compensation practice should be developed with more focus on individual performance and non-transparency. One major issue faced by individual-based and



money-oriented compensation practice is that it may lead to higher turnover and lack of commitment as has occurred in many foreign-invested enterprises (Tomlinson, 1997). It should be noted that compensation practice alone cannot be relied on to provide all the motivation or incentive without support from other HR practices, such as training and development.

*Training and development.* Various training programs were evident in the case enterprises and surveys although these programs were oriented to new recruits or existing workers needing to update their technical knowledge and skills. This suggests that training has been used as a means of implementing enterprise reform, and therefore indicates progress in this HR activity. However, as indicated by item 7 in Table 10-4, of all the HR activities, respondents expect training and development to increase the most in the future. The respondents expected specific training (technical knowledge and related skills) to increase from the current moderate level to a much higher level, and behavioural training (e.g., interpersonal skills and adaptability in a changing working environment) to increase from a relatively low level to a moderately high level (see Table 10-34). These expectations were also evident in the four case studies, where people expressed dissatisfaction towards their senior managers' reluctance to invest in training, the lack of training for employees' career development, or the reactive approach adopted by enterprises to training.

Some researchers (Benson, 1996; Child, 1994; Zhu, C.J. 1997) have noted that China still suffers from a shortage of highly skilled workers and experts, as well as a scarcity of qualified managers. The lack of adequately trained management was also identified by the government as a major problem in achieving modernisation and the

implementation of industrial reform (Child, 1994; Warner, 1993, 1995). Since the reform program began, the government and education institutes have offered various training programs for managers (see Section 4.6.2). However, the findings of this thesis indicate that only a low level of training has been offered to managers (see Table 10-30 and Chapters 7-9). Furthermore, the expectation of survey respondents for employees with better interpersonal skills and a stronger commitment to the enterprise supported the findings of other researchers that greater emphasis should be placed on behavioural training in China (Von Glinow & Teagarden, 1990). For example, Dalton and Austen (1995) argue that employee commitment to the company can be increased in Chinese enterprises by introducing an approachable management style that looks after the individual. Geringer and Frayne (1990) also believe that training can be used to encourage people to think and behave in ways consistent with the enterprise's culture, objectives and interests. Greater emphasis on training, especially in the area of behavioural and managerial practices is likely to develop in the future.

The trend for enterprises to increase their commitment and investment in employee training and development has also been facilitated by the Labour Law, which came into effect on 1 January 1995. Although the requirements for training as stipulated in the Labour Law are not specific and procedures of enforcement are not established, it is still the first time since the PRC was founded that China has had a legal requirement for employee training and development. The Labour Law requires that:

The employing unit shall establish a system for vocational training, raise and use funds for vocational training in accordance with the provisions of the state, and provide labourers with vocational training in a planned way and in the light of the actual situation of the unit. (Article 68)

Apart from this requirement, the government policy to deploy (or re-employ or reallocate) rather than retrench surplus employees (see the re-employment project in Section 4.3.2) has become another driving force for enterprises to offer training programs to increase employee employability. Another contributing factor for such a trend is the transition towards a more market-driven economy. Increasing competition within markets as indicated by Table 10-1 has forced enterprises to raise productivity through training. A number of researchers (e.g., Riskin, 1987; Yabuki, 1995) have pointed out that the low level of employee productivity in many Chinese enterprises was directly related to the low level of workforce education and technical training, as well as inadequate enterprise management. As China will face more rigorous competition in the world economy once it becomes a member of the World Trade Organisation, it will be crucial for China to create a competitive workforce. This will place pressure on enterprises to invest in employee training and development.

*Labour relations.* The findings of this thesis indicate that the density of union membership in state enterprises may continue to be much higher than in other enterprises in the future. During Mao's regime, only full-time employees could be union members and SOEs used to offer lifetime employment to many more employees than any other type of enterprise. As most SOEs remain very much "mini-welfare states" (Thompson & Smith, 1992: 8), they need trade unions to deal with social issues such as the distribution of housing and other welfare items (see Chapter 6). Although employees in the non-public sector have the legal right to form unions, trade unions are still subordinated to the overall interests of the Party and still focus on social welfare issues, as economic reform has not touched the political system in China (see Chapters 6, 7 and 9; also Howell, 1992; Thompson, 1992). The research results

disclose a low rate of employee participation in management across the four types of enterprises (Table 10-38), and this may reflect the 'weak' position held by trade unions within enterprises. In the case studies of TeleCo, RadioCo and CableCo, trade unions consistently played similar roles of handling employee welfare and assisting management. The only exception observed was in the case of CableCo, a FIE, where the trade unions assisted the Chinese managers to negotiate better welfare benefits for its Chinese employees with the foreign partner. Protecting the interests of Chinese employees may become a new role for trade unions in foreign-invested enterprises.

In the private sector, employees have less power to negotiate with management and their rights may not be protected as in ElectroCo. This situation is unlikely to change in the foreseeable future for several reasons. First, with the increasing number of retrenched (or to be re-allocated) employees and surplus labour in rural areas, the labour market will be abundantly supplied, giving employers greater bargaining power. Second, the paternalistic style of management in private enterprises, as indicated in the literature and the case study (Chapter 8), may hinder the establishment of trade unions. Finally, employees in the non-public sector tend to have higher turnover rates because of inadequate welfare benefits such as enterprise-supplied housing. This may reduce the incentive for employees to form a union to protect themselves. Given these influences, it needs to be questioned to what extent trade unions are able to represent workers' interests in terms of their rights and power. As long as trade unions continue to be subordinate to the Party (Child, 1994; Zhao, 1995), their nature will largely remain unchanged.

In summary, the research results of this thesis indicate possible future development paths for HRM in Chinese industrial enterprises. These include the adoption of the HR activities presented in Table 11-1, further improvement of current activities such as linking HR planning to business strategy, emphasising performance-related compensation, and integrating HR reforms into other areas such as the establishment of a nation-wide social security system.

## **11.6 Implications for Government Regulation of Enterprises**

The findings of this thesis, as discussed with respect to the three research questions, raise several implications for government regulation of enterprises in their HRM development. The implications include further reforms needed in the joint stock ownership structure, issues of managerial appointments, improvement of the business environment for HRM development in the private sector, and the interdependence with other reforms to enhance future HRM development in China. These implications are discussed below.

### **11.6.1 Further reforms needed in the joint stock ownership structure**

Since the early 1980s, a multi-ownership system has been gradually established in China. Enterprises with non-public ownership such as POEs and FIEs have flourished, and many SOEs and COEs have introduced various shareholding systems to change their traditional public ownership structure (Chapter 3; also see Li, 1999; Xu & Wang, 1999). Enterprises have started to experience reduced government constraints subsequent to a transition in the relationship between the state and the enterprises, moving from administrative to economic in nature (see Section 3.3.1). However,

public sector enterprises, especially SOEs, are still subject to much more restrictions than non-public enterprises as indicated in the case studies and their HR practices retain more traditional features than in FIEs. These research findings highlight the need for that HR practices in public enterprises to be developed alongside further reforms in their ownership structure and further changes to the role of government in enterprise management.

The research results in this thesis indicate that the influence of government ownership on the traditional structure of SOEs and COEs interfered with enterprise management, by imposing various constraints on these enterprises (see Table 11-2). Managers in the public sector still face issues concerning their right to claim residual values, their autonomy to make final decisions, and their reward for assuming greater responsibility (see Chapters 6 and 7). Their lack of power in these areas has consequently impeded their initiative to adopt or change HR practices in their enterprises. Recently, China has experimented with a joint stock ownership structure, and the government has begun to “support the reorganisation of state enterprise into limited-liability entities owned by government, corporate and private share-holders” (Rawski, 1995: 1155). Although different approaches have been encouraged such as selling shares to the state, institutes, managers and employees or listing the enterprise on the stock market, the government has consistently required majority public ownership in order to maintain credibility of the socialist principle (Liew, 1997).

Research conducted by the Ministry of Labour in 1997 reported the impact of ownership reform in SOEs on compensation practices (Ma, 1998). The research focused on SOEs in Shangdong province and Shanghai that had adopted various joint

stock ownership structures, such as offering shares only to the state and internal employees or to the state, managers, and individuals within and outside of the enterprise. The report points out that the changes in ownership structure and subsequent changes in HR practices such as compensation have granted senior managers more rights to claim residual values, to increase the wage differentials as a means of encouraging higher performance and greater responsibility, and to improve the total productivity of these SOEs. The results have demonstrated a positive relationship between the changes in ownership structure and an improvement in enterprise performance, which could be partly attributed to the more effective compensation practice. Although China is still at an experimental stage in determining appropriate proportion of stocks that should be held by different parties (see Xu & Wang, 1999), the research findings of this thesis support the view that changes in the ownership structure of public enterprises, and further reform in the joint stock system may offer managers incentives to develop more effective HR practices.

#### **11.6.2 Managerial appointments**

The second implication for government regulation of enterprises concerns the appointment of senior enterprise managers. Research has shown that enterprise performance is directly affected by the competence of its senior managers, especially general managers (Zhao & Ni, 1997). In 1993 the State Planning Committee conducted a study of 2,586 enterprises that were making losses, and found that the lack of business competence of their senior managers was the main reason for failure in 81.71% of enterprises investigated (2,102 enterprises) (Zhao & Ni, 1997: 69). Although the government had started open and fair competition in the selection of

cadres working in the public sector, senior managers of medium and large SOEs or COEs were still often appointed by the government.

This situation has changed since 1993 when enterprises began to adopt shareholding systems where the board of directors could appoint the general managers. According to a survey conducted by the State Planning Committee in 1998, among 3,180 respondents (who were all senior managers from industrial enterprises across all four types of ownership), 48.2% of them were appointed by the government in 1998, and 40.2% were appointed by the board of directors (Xie et al., 1999: 70). However, the data indicate that among all the senior managers surveyed who were from SOEs, 92.2% of them were appointed by the government in 1993, and 89.0% in 1998. Meanwhile, 60.9% of the senior managers surveyed who were from COEs were appointed by the government in 1998. These results are consistent with our findings from the case studies. Given that the nomenclature system impedes the establishment of an open market for professional managers and reduces the opportunity to recruit competent managers, it would be incompatible with the reform in ownership structure towards a joint stock system. The nomenclature system would also discourage senior managers from striving for excellence as their promotion might depend on their relationship with the government rather than on their merit or performance. The government should nurture a free market of professional enterprise managers and adopt a free competition approach to the selection of senior managers as has occurred with civil servants in the public sector.



### **11.6.3 Improvement of the business environment for HRM development in POEs**

The previous discussion (Section 11.5) indicates that compared with other types of enterprises, POEs experience the least government interference but their HR practices appear to be the most informal and non-systematic. One of the reasons for the informality of HR practices in POEs is their lack of confidence in government policies towards business development in the private sector (see Section 8.2). The constitutional amendments of 1999 has upgraded the role of private business from 'a supplementary' to 'an important component' of the socialist market economy. However, the owners and managers of POEs would be reluctant to devise a long-term strategy for their business and invest in human resources if they still fear policy changes (Murphy, 1996; Sabin, 1994) or are uncertain of their political and social status (Chen & Shi, 1998). The implication to be drawn here is that the government needs to further improve the business environment for the private sector through introduction of consistent policies and encouragement of improved private sector management, especially in the area of HRM. Such support may promote confidence in POEs to invest in their business and human resources, and to further develop their HR practices.

### **11.6.4 Interdependence with other reforms to enhance future HRM development**

The development of HRM in China relies heavily on reforms in other areas. The research findings have implications for some of these areas such as identifying the need for enforcing the legal requirement for training and establishing a social security system to allow enterprises to retrench surplus employees. While training is now required by the Labour Law, no procedures have been specified for enforcement, and enterprises can cease investing in training as occurred in TeleCo or simply ignore

training as in ElectroCo. The implementation and improvement of training depends on further legal reform, specifically with regard to the enforcement of regulations.

A crucial area for further reform concerns the need for the establishment of a social security system in China. Reform in the traditional labour and personnel administration aims to move away from the three iron practices but these practices cannot be abolished without a radical reform in China's '*danwei* (work-unit) system' (see Section 3.3.2) which is characterised by welfare socialism (see Gu, 1998) and is prevalent in SOEs and COEs. The case studies reveal that enterprises under public ownership cannot retrench their redundant employees and can only remove people from work positions but not from the payroll (Chapters 6 and 7). TeleCo, for example, had to provide accommodation to its employees even after they had left to work in a joint venture.

Public enterprises, especially SOEs, have maintained the key features of the *danwei* system, demonstrating "institutional continuities" or "organisational inertia" (Warner, 1999: 2). Under the *danwei* system, enterprises find it difficult to implement HR practices. Although the continuation of the *danwei* system can be partially attributed to the mindset of Chinese managers and workers (Warner, 1999), the key reason is the absence of a social security network in China. Permitting SOEs and COEs to discharge their heavy burden of social welfare, as FIEs and POEs have done, would convert the implicit unemployment or underemployment rate inside enterprises into an explicit unemployment rate in society.

## **11.7 Contribution of the Present Research to the Literature on HRM in China**

The findings of the present research can contribute significantly to the literature on HRM in China in terms of theory development, areas for further research, and relevant methodological issues in the study. They are discussed in detail in the following three sections.

### **11.7.1 Contribution to theory development**

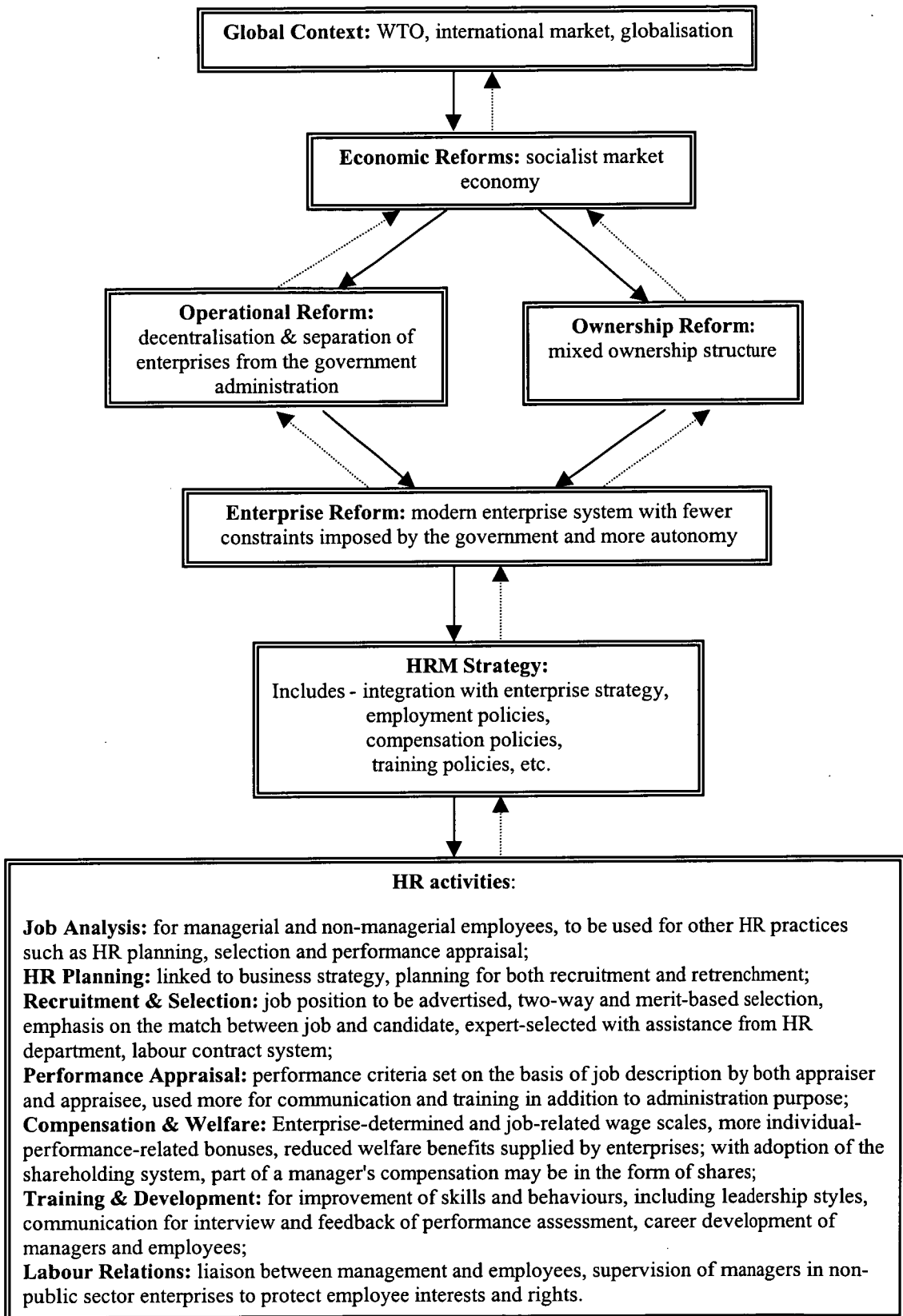
Many researchers have reported the development of HR practices in China as a result of the economic reform (e.g., Brown & Porter, 1996; Child, 1994; Jackson, 1992; Laaksonen, 1988; Warner, 1995), but few studies have reported empirical evidence of current HR practices in terms of all the major HR activities. Furthermore, little research has been conducted on the impact of ownership type on HR practices - even though ownership reform has brought a wider range of ownership structures into the Chinese industrial sector. The research findings of this thesis contribute to the current literature on HRM in China by supplying empirical evidence of current HR practices in a systematic way and examining the impact of ownership form on HR practices across four types of ownership. The research from this study has demonstrated that some Western HR practices are being used in Chinese enterprises, although often in a "hybrid form" as noted by Warner (1995: 161).

The literature reviewed in this study and the research findings of the thesis all indicate that the management of human resources is directly affected by the economic system and its ownership structure. The impact of the economic system is especially powerful in China as its political system has remained intact and its socialist ideology is still

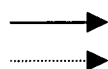
being emphasised (e.g., Burns, 1999; Pye, 1999; Starr, 1997). In addition, the adoption of the 'open-door' policy since economic reforms began has facilitated China's integration into the global network, as reflected by the survey respondents' strong agreement that 'conditions in the business environment are rapidly changing' (item 2 in Table 10-1). China's endeavour to become a WTO member has also accelerated its economic reforms, which in turn has had a direct impact on the separation of enterprises from government administration and reforms in ownership structure. Under such circumstances, HR practices have "to be related to directly impinging environmental factors" and there is a need "to build in external constraints to models of HRM" (Brewster, 1995: 10-11).

Based on the present research, a post-reform HRM model is proposed for China's industrial enterprises in Figure 11-1. It includes the key contextual variables in the Chinese economic environment during the reforms, which include the global context, a market-driven economic system, and changes in the government regulation of enterprises as the result of the operational reform and patterns of ownership due to the ownership reform. The model first presents the context in which changes in the management of human resources have occurred, indicating that China is in transition from a planned economy to a socialist market economy. The model also recognises the interdependence of HRM with the external international and domestic economic systems as shown by arrows with both solid and dotted lines in Figure 11-1 (a solid line indicates a direct impact; a dotted line indicates a mutual interaction). The arrows in the model also show that an enterprise's management and its HRM strategy interacts with one another with subsequent impact on the HR practices.

**Figure 11-1 Proposed HRM Model for Chinese Industrial Enterprises**



Note:



Solid line indicates a direct impact;  
Dotted line indicates a mutual interaction.

The model in Figure 11-1 places HRM strategy and practices in close interaction with the modern enterprise system and the external environment, emphasising that all the contextual variables are part of the HRM model rather than merely external factors that may have some incidental influence. The interaction between the HRM model and the external environment results from the major changes that have occurred consequent to the reforms.

The first change concerns the domestic economy and its close interaction with global developments. Since China adopted an open-door policy in the late 1970s, the economic system in China has moved away from a command economy to a socialist market economy. However, this transition is far from complete and is being continuously affected by global issues, including China's entry into the WTO, competing in the international market and participating in globalisation. To become a member of the WTO, for example, China will need to open up its banking, insurance and telecommunications industries to foreign competition and ownership, become subject to international rules and enforcement, and promote market-oriented reforms (Ispahani, et al., 1999). China has made, and continues to make considerable progress towards integration with the rest of the world (Lardy, 1998; Chartier, 1998), which has a direct impact on Chinese enterprises, as more enterprises have to compete in the global market rather than in the protected domestic market. China's economic development has in turn created considerable impact in the global context as it is emerging as an economic giant in the world economy and is the second largest recipient of foreign direct investment in the world after the United States (Kelley & Luo, 1999; Tsang, 1998).

The second change lies in reduced government control over enterprises as a result of the operational reform. The economy is now moving away from highly centralised planning to decentralisation and deregulation and cessation of government administration of enterprises.

The third change is the result of ownership reform. The ownership structure has changed from being public dominated to mixed with coexistence of both public and non-public enterprises. Because of these changes and the government's endeavour to establish a modern enterprise system, enterprises are experiencing fewer government constraints and have more autonomy to compete against others with different types of ownership. Ongoing reforms have facilitated HRM development in China's industrial enterprises as presented in the model in Figure 11-1.

The proposed HRM model also indicates that HRM will be conducted at a more strategic rather than operational level and linked more closely to the business strategy of the enterprise. Therefore, HRM strategy includes the integration with business strategy of the enterprise and new HR policies such as employment, compensation, and training. HR activities that flow from the strategy may reciprocally influence the development of management practices in the enterprise, which may then influence the government to allow further reforms at a macro-level. For example, if enterprises are able to discretely retrench redundant employees, the government need to support this HR practice by establishing a social security network as a safety net for those retrenched employees. Also, the literature reviewed in this thesis noted that SOEs were striving for more autonomy and employing different types of joint stock ownership in order to survive or compete with other types of enterprises. In view of this, the

government must offer further guidance and facilitation of reforms in the ownership structure. Therefore, in the proposed HRM model, all the variables are shown to interact with each other and the adoption of certain HR activities is interdependent upon other contextual factors. HR activities in this model may bear more resemblance to Western HR practices. Their major features are outlined in Figure 11-1.

### **11.7.2 Areas for further research on Chinese HRM**

As HRM in China is an under-researched area and the current literature has offered few hypotheses to test, the aim of this thesis was to conduct an exploratory study for theory development. The research conducted for this thesis has supplied empirical evidence of current HR practices in Chinese industrial enterprises with four types of ownership and explored the impact of ownership forms on HRM. Based on this research, a HRM model has been proposed to indicate probable future paths of HRM in China. However, there are still many areas for further research in Chinese HRM, and, as Warner (1999) has noted, it is still premature to pronounce that HR practices in China have definitely moved closer to a Western style of HRM.

One area for further research could be to examine the utilisation of the HR activities presented in the HRM model (Figure 11-1) in industrial enterprises with different types of ownership. Empirical testing could be conducted to explore how HRM strategy and its activities interact with each other, and how HRM *per se* is interrelated with other parts of the model, such as the interaction between HRM strategy and the deregulation of government policies, changes in the enterprise ownership structure, and further integration of China into the global market. Future research could also examine HR activities that have contributed to, or impeded enterprise effectiveness,



and how and why this could happen. In this study only the production output value and correlation between some HR practices and respondents' perception were employed as parameters of the effectiveness of HR practices (see Chapter 10). Future studies could use measures such as sales value, profit, and productivity to test the links between HR practices and enterprise performance. In addition, further comparisons could be made to investigate the convergence or divergence of HRM in different types of enterprises towards Western-style HRM in terms of concept, strategy and practices.

HRM in township and village enterprises (TVEs) is another area for further research. TVEs refer to "rural non-state enterprises subordinate to township or village governments which are owned and operated collectively", and have developed rapidly in China since the 1980s to become "one of the most distinctive features of China's transition to a market economy" (Luo, Tan & Shenkar, 1999: 3). By 1995, TVEs contributed to nearly half of the total national pre-tax profits in China (Statistical Yearbook of China, 1995). By the end of 1996, people employed by TVEs had reached 135 million (Chen, 1999: 35). Although TVEs belong to collective-owned enterprises (COEs), their ownership structure are often more flexible than the urban COEs, ranging from collective-owned to private-owned but disguised in a collective form or joint stock companies (Wang & Chang, 1998). Liu and colleagues (1996) have noted that TVEs are usually small, flexible, market-driven and dedicated to attracting and maintaining competent technical and managerial employees to compensate for their obsolete technology and inadequately educated workers. Given the fast growth and flexible ownership structure of TVEs, it would be useful to examine HRM in this type of enterprise, including the impact of ownership on their HRM strategy and activities, and the contribution of HRM to their performance and development.

Apart from follow-up research on HR practices in TVEs, the size and location of the enterprise may also be considered as a variable for further research. This study mainly focused on small- and medium-sized enterprises located in three well-developed and highly industrialised metropolitan cities (i.e. Tianjing, Shanghai, and Nanjing). However, Lo (1997) has argued that large-scale SOEs in China are performing much better than other SOEs, which raises the question as to whether size has an impact on an enterprise's HRM practices. This is especially relevant given that the government has adopted the strategy of "grasping the largest enterprises and releasing the small" (*zhuada fangxiao*) to facilitate the implementation of the ninth five-year plan (1995-2000) and long-term planning for 2010 in China (Wan, 1997: 32). *Zhuada fangxiao* means that the state will focus its reform efforts on the largest 1000 state enterprises, while relaxing its control over other enterprises and letting them survive, develop or go bankrupt. It is worth investigating whether HRM are conducted in different ways in the large enterprises that will remain under direct control of the state. Furthermore, Zhao and his colleagues (1998) have noted that the geographic region in China also influences HR practices because of the different levels of education, industrialisation and access to advanced technology in different regions. Dalton and Austen (1995) have pointed out that the shortage of educated and skilled people in inland and remote areas in China should be a major consideration for foreign companies in their site selection for a joint venture.

Finally, a longitudinal study could be conducted based on the results of this study. Sekaran (1992: 111) argues that longitudinal studies can offer valuable insights and help to identify cause and effect relationships. This is especially relevant as China is still in a transitional stage, and will continue its economic restructuring and reforms in

the new century. Using the same survey questionnaire over a period of time may help identify changes in HRM in Chinese industrial enterprises along with changes in the contextual environment and the reasons behind such changes.

### 11.7.3 Methodological issues of the present study

This study used an exploratory approach that combined qualitative case studies and quantitative survey questionnaire. The methodology utilised in this study achieved the synergy effect noted by Eisenhardt (1989), because quantitative survey data were used to support findings from the qualitative case studies (Merriam, 1988). For example, while quantitative evidence only indicated patterns of HR practices in each type of enterprise, the qualitative data from case studies explored the rationale of such patterns. In addition, the multiple case design of this study investigated a contemporary phenomenon (HR practices in Chinese industrial enterprises) within its real-life context (enterprises that were in the centre of the reforms and with different types of ownership) (Yin, 1994). In-depth and multifaceted investigation and multiple sources of data (triangulation) as suggested by Orum and his colleagues (1991) were consistently used in the four case studies, which enabled the researcher to describe and analyse HR practices in Chinese industrial enterprises.

However, there are some limitations to these methods. First, each type of enterprise had only one case study, which may not allow “findings to be replicated within categories” so as to “control extraneous variation and help to define the limits for generalising the findings” (Eisenhardt, 1989: 537). Although the survey results from respondents in the same type of enterprise have partially overcome this limitation, multiple case studies could be conducted in enterprises with the same type of

ownership. This would allow researchers to follow replication logic of the impact of ownership, with each case serving to confirm or disconfirm the inferences drawn from previous cases (Yin, 1994).

The second limitation, as indicated in Section 5.4.4, is that sample size varies for some survey questions because of some respondents had little knowledge of current and ideal HR practices. This limitation may be overcome in future studies when HRM becomes more developed in China and employees acquire greater understanding of HR activities.

Apart from the limitations, there are some lessons to be learned from the empirical investigations in this study. First, although the survey questionnaire has been supplemental to qualitative case studies, its design and distribution are critical to achieve a satisfactory response rate. In this study, all the survey questions were double-checked and back translated by a researcher with bilingual skills (the author of this thesis) to ensure the suitability of questions in the Chinese context. As the survey is a relatively new research instrument used in China, the researcher needs to personally explain the purpose of the survey and to guarantee the anonymity and confidentiality of responses. Eliminating the fears of respondents due to political or cultural concerns is crucial, and will encourage them to give honest answers to questions and to return the questionnaires. This issue surfaced in Xie's (1995) field study in China: her survey respondents asked for model answers to the survey questions for them to follow. Apart from this, the survey response rate can also be improved if the survey questionnaire is offered to respondents together with a self-seal envelope and collected personally by the researcher as carried out in this study.

Second, it is important to ensure the confidentiality of the information supplied by interviewees during the interviews. This could help to obtain the trust of interviewees and increase their willingness to be interviewed. The researcher noted that interviewees preferred to have individual or very small group interviews with two to three persons of similar status. Under these circumstances, they were usually prepared to be outspoken and critical of their enterprise, superior(s), and management practices. Their reluctance to be involved in any political discussion about so-called "internal matters" has also been noted by Shenkar (1994: 11).

## **11.8 Implications for HR Practice in China**

Two major implications for HR practice in China are drawn from the findings of this thesis. The first is the training of the Chinese workforce to prepare for the future development of HRM. The second concerns the transfer of HR practices from overseas to Chinese enterprises.

### **11.8.1 Training the Chinese workforce for new HRM challenges**

The HRM model proposed in Figure 11-1 indicates that China is in transition from the traditional PRC model (see Figure 4-1) to a new model of workforce management. During this transition period, enterprises have been and will be granted more autonomy to operate their own business and to compete in local and international markets. However, the lack of adequately trained management in China has become a major obstacle to the progress of reforms (e.g., Child, 1990, 1994; Warner, 1993, 1995; Wright, Mitsuhashi & Chua, 1998). As Child has noted, "the shortage of managerial and professional expertise [in Chinese enterprises] tends to constrain the

de-concentration of authority and delegation of decision making within industrial and other structures" (1990: 150). The research findings of this study are consistent with the observations of other researchers, as both the case studies and survey results indicate that training of the whole workforce is inadequate. This study supports the argument that it is important to emphasise workforce training, especially managers at all levels, to effectively utilise HR practices and improve enterprise productivity. This section first discusses the significance of training for management and then for employees.

The proposed HRM model (Figure 11-1) has clearly indicated huge differences between conducting HR activities in a market-driven economy and in a traditional planned economy. The model is integrated with and influenced by other contextual variables, and managers need to understand how HRM can function and be conducted in this dynamic environment. However, the traditional way of selecting managers, whether through the nomenclature system or through promotion, has often impeded the development of managerial skills when the emphasis is placed on political reliability. For example, the political requirement for HR managers was still emphasised after 15 years of reform, especially in state sector enterprises, as evident in the survey results of this study and noted by other researchers (e.g., Esterby-Smith, Malina & Yuan, 1995). This emphasis undermines the importance of managerial skills (Zhou, 1999; Wang, 1998).

Therefore, the concept of HR practices may be interpreted or understood in quite different ways in China due to insufficient training of the managers in this area. This issue has been discussed in several of the case studies (Chapter 6 and 9), and the

practice of training and development can be used as a typical example. Training and development does exist as a HR practice in China, but it is passive and narrowly defined, “in contrast to the Western HRM notion of planning for long-term staff development” (Warner, 1993: 46). The proposed HRM model emphasises that HR activities need co-operation and joint efforts from managers at all levels rather than being left entirely to HR managers. This raises the issue of training all managers, especially line managers, for the formulation of HRM strategy and conduct of HR activities. Before a free labour market for professional managers can be nurtured and developed in China, management training is urgently needed to update the knowledge and skills base of current managers, especially in the area of HRM.

The trend for foreign companies to use local managers in their subsidiaries in China is another driving force behind management training. As more foreign companies expand into China, they have sought local management in order to develop a large corporate presence in China (*China Business Review*, July-August 1996: 46; Melvin & Sylvester, 1997). When hiring Chinese nationals for executive jobs because of their communication skills, local contacts, and understanding of the domestic market (Kamis, 1996), many foreign companies have found that Chinese managers lack both decision-making skills and personal initiative as a consequence of their education and training in the traditional system (Peng, 1994; Zhao, 1994). Thus, it is essential that foreign companies offer corporate management training programs which address not only job-specific skills but also managerial skills, such as HRM skills appropriate to the Chinese context, and problem-solving skills in high-pressure situations (Melvin, 1996). This in turn would facilitate more widespread management training in China.

Management training is also essential to enable enterprises to compete in the global market when China becomes a WTO member. The market-oriented economic system that has emphasised management training in China since the reforms began indicates that China is striving to be admitted as a viable member of the WTO. As such, it will soon face more rigorous competition in both the local and world economy. A critical factor for China will be its ability to fashion a competitive workforce. The employment of effective HR activities to develop such a workforce will be a new challenge to managers. Managers must learn how to attract qualified job applicants through HR planning and recruitment and selection; effectively utilise employees with the help of performance appraisal and compensation; develop employee potential via education and training; raise employee initiative by adopting motivational practices; and retain key employees by integrating and implementing HR practices, especially training and development (Zhao, 1995: 74).

Emphasis on training of workers is also significant for HR practice in China. The research findings of this study indicate that training offered by the enterprises was often focused upon preparing new recruits and remedying current performance deficiencies rather than on changing behaviours or developing future careers for employees. The reluctance of managers to offer training and the insufficient number of training programs offered could impede further reform in China because a highly skilled and committed workforce will be crucial for enterprises to compete in a more market-oriented economy.

It is also relevant to note that China will have a young workforce by the end of 2005. Between 1962 and 1975 the population rose by a staggering 360 million, with the



majority of this population surge now part of the workforce, and comprising half the national labour force (Hu & Lu, 1994; Xiao, 1995). However, this workforce will not be effectively utilised unless enterprises are willing to offer more training. In 1991 a research centre of the China Science and Technology Commission conducted a survey of young employees and heads of enterprises across ten major cities in China (Wang, 1993). Responses indicated that the most unsatisfactory aspect of the young employee's working life is the lack of corporate training. The results reveal that 53.9% of employees surveyed had never attended any occupational or technical training class. When asked about main reasons for wanting training, employees expressed a desire to improve their technical skills in order to be more competent in their jobs. However, 60.6% of the managers saw the purpose of training as merely enabling employees to meet basic production requirements. The findings of this thesis with regard to training are consistent with the results of this 1991 survey and indicate that employees are willing to be trained, whereas managers often take a short-term approach to training. The inadequate training of the workforce has also been identified as a key issue in Chinese HRM by other researchers (see Wright, et al. 1998; Zhao, 1998).

While China has a relatively young and insufficiently trained workforce, many public sector enterprises are facing the dilemma of re-allocating rather than retrenching employees as observed in both TeleCo and RadioCo. The adoption of the 'responsibility system' and 'scientific management' has emphasised full workloads and productivity improvement, resulting in a rapidly increasing number of redundant labourers (Riskin, 1987; Zhao, 1995, 1998). In 1995, there were 15 million redundant employees in urban areas who remained on the payroll and were waiting to be allocated other jobs (Shi, 1995). The Shanghai Academy of Social Sciences conducted

research concerning the re-employment situation of redundant employees in 1988 and 1994 respectively (Tao, 1994). In the 1988 study, 20% of the 1841 redundant workers surveyed selected "retraining for new employment" rather than "waiting to be relocated by the government" or "looking for a new job in the local labour market". This percentage increased in 1994 to 31%. Obviously, training helps to increase employability and "having a workforce that is characterised by its employability is probably a necessary prerequisite for corporate survival" (Greer, 1995: 6).

Johnston and Packer (1987) have predicted that in the twenty-first century, "jobs that are currently in the middle of the skill distribution will be the least-skilled occupations of the future, and there will be very few net new jobs for the unskilled" (1987: 100). Job skills become more complicated with the development of technology and advancement of industrialisation. Since the 1980s, the growth rate of GDP in China was double-digit until mid-1990s when it was curtailed by the Asian financial crisis (Dernberger, 1999). This boom in China's economy has facilitated more foreign investment and technological development than in any other developing country. Foreign investment has brought in advanced technology and sped up changes in the nature of employment (Selmer et al., 1999; Tsang, 1998). To catch up with this change and to prepare for the future, enterprises have had to invest in employee training and development.

Although the survey results of this study indicate that a majority of the enterprises investigated offered training courses to new recruits and to their existing workforce, the separation of training programs from their business strategy and a lack of systematic planning are still major problems. Zhao (1995) has pointed out that while

employees' education level has increased through training, their technical skills and productivity often remained stagnant. This problem was evident in the finding of this study that SOEs seemed to offer more training programs but their production output value per head was ranked lowest among the four types of enterprises. Meanwhile, TeleCo and RadioCo offered some training programs simply to fulfil government or legislative requirements, rather than to meet their own production needs. Such problems are in part a legacy of the former planned economy and in part a result of the focus placed on technical training. In order to link training closely to business strategy, enterprises need to identify their short- and long-term training needs, design training programs which address technical and behavioural issues, and have an evaluation system in place to determine if the training and development program met its objectives (Schuler et al., 1992).

Child (1991) has argued that training the Chinese workforce would not only help to develop their technical competence to work with new methods and technologies, but also to recognise individual worth and offer incentives. However, he also noted that "neither were much encouraged in the typical Chinese enterprise" (Child, 1991: 104). This observation was supported by the research findings of this study. It suggests that the sort of training and development currently offered in China's enterprises is limited when compared with the Western HRM model (Warner, 1993). As training will undoubtedly remain one of the key factors "in determining China's ability to compete in world markets" (Gregory & Wales, 1996: 29), the future role of training and development for the whole workforce should be greatly emphasised.

### **11.8.2 Transfer of HR practices from foreign companies to FIEs in China**

Another issue raised by the research findings concerns the transfer of HR practices from foreign companies to their subsidiaries in China. FIEs appeared to conduct more Western-style HR practices such as merit-based selection and performance-related pay, and achieved the highest productivity among the four types of enterprises (see Table 10-4 and Table 11-2). However, to further develop HRM in FIEs, foreign managers should be aware of the extent to which foreign companies can transfer their home country HR policies and practices to their subsidiaries in China. Some researchers (e.g., Huo & Von Glinow, 1995; Paik et al., 1996) have noted that foreign managers should not assume that identical HR practices could be applied to their Chinese enterprises, while others claim that Western-style HR practices should be introduced only when a Chinese perspective, and Chinese values and methods have been incorporated (e.g., Child, 1993; Fung, 1995).

For example, it has been argued that to increase the effectiveness of appraisal in China, the Western appraisal system, which encourages individual economic performance, should incorporate the Chinese values of socially satisfying performance, such as harmonious functioning in a work group and fulfilment of individual obligations towards the work unit and colleagues (Fung, 1995). In the case of CableCo, performance appraisal failed to achieve objectives such as an increase in communication between managers and employees and the identification of training needs. This is not surprising given that CableCo's foreign partner had simply transferred its performance assessment sheet to the joint venture even though CableCo had limited job analysis, little training for managers to conduct performance appraisal and no involvement of employees in the goal-setting procedure. This example

indicates that it is essential for foreign managers to know how Chinese employees were managed in the past so as to understand Chinese managers' difficulty or inertia in accepting non-traditional or Western-style HR practices. In addition, it is critical to regard the training of Chinese managers as an urgent issue in FIEs if Western-style HR practices are to be transferred and developed.

## **11.9 Conclusion**

This thesis has aimed to provide an exploratory empirical study of the emerging role of HRM in China's industrial enterprises. Through a review of extant literature, case studies, survey, and a comparative analysis of research findings from both qualitative and quantitative studies, this thesis has systematically examined major HR practices across enterprises with four major types of ownership and explored the impact of these ownership types on HR practices. Based on this research, a HRM model has been proposed for Chinese industrial enterprises. This model has integrated contextual variables that are relevant to the Chinese setting which interact dynamically with HRM strategy and activities. It illustrates a model of HRM in China that is distinct from the traditional PRC model of personnel and labour administration (see Figure 4-1), and suggests possible future paths of HRM development in China as a result of the ongoing reform process.

This final chapter has highlighted the relevance of the research findings for HRM development in Chinese industrial enterprises along with this study's contribution to current literature on Chinese HRM. These include implications for government regulation of enterprises and for HR practice in China. In particular, it emphasises the

significance of training the Chinese workforce in preparation for the new model of HRM and offers insights into the effective transfer of HR practices from foreign companies into Chinese enterprises. Areas for future research, limitations of this study and methodological issues encountered in this study have also been identified and discussed in this chapter. To conclude, this thesis has addressed the dearth of research on HRM in China by providing empirical evidence on the emerging role of HRM and the impact of ownership types on HRM. It has therefore achieved its three specific aims. That is, it has enhanced the understanding of HRM in China's industrial sector, contributed to the current theory of HRM by exploring the impact of ownership forms on HRM, and proposed a HRM model to show possible paths of HRM development in China. Hence, the researcher believes that this thesis has made a worthwhile contribution to the development of HRM in China.

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## **APPENDIX I: CASE STUDY INTERVIEW QUESTIONS**

Enterprise name:

Interviewee's name:

1. Briefly describe your job duties.
2. How long have you held this present position?
3. What was your previous job and why did you leave the job?
4. How long have you been working with the current enterprise?
5. Briefly describe your current enterprise in terms of its ownership type, history, business strategy and operation, size and structure, and the changes that have occurred within the enterprise since economic reform?
6. How are employees of this enterprise categorised (e.g., categorised as cadres and workers or managerial and non-managerial employees)?
7. Which department of the enterprise manages its employees?
8. How does this department manage its employees with respect to human resource planning, recruitment and selection, performance appraisal, compensation and welfare, training and development, and labour relations?
9. How were these HR activities conducted before the reform?
10. Are there any major changes in these HR practices since economic reform?
11. Why have these changes occurred?
12. What do you think of the HR practices conducted by your enterprise?
13. Do you think these HR practices are effective in attracting, motivating, retaining and developing employees? Why?
14. How would you like these HR activities to be conducted? Why?
15. Any additional comments?



## APPENDIX II: SURVEY QUESTIONNAIRE

### HUMAN RESOURCE MANAGEMENT (HRM) PRACTICES IN CHINESE INDUSTRIAL ENTERPRISES

Please place a check beside or circle the most appropriate answer to each of the following questions. In a few cases please fill-in the blank.

#### BACKGROUND INFORMATION

1) About your enterprise

1. When was the enterprise set up? \_\_\_\_\_

2. Ownership: State \_\_\_\_\_ Collective \_\_\_\_\_  
Private \_\_\_\_\_ Foreign Joint Venture \_\_\_\_\_

3. Approximately how many employees are there in your company?

Please write down \_\_\_\_\_

4. The enterprise's total output value in 1993: \_\_\_\_\_

5. The percentage of contract employees: \_\_\_\_\_, and the percentage of permanent employees: \_\_\_\_\_

6. Do you have employees belonging to union in your enterprise?

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, do you know approximately what proportion of employees are members of unions?

\_\_\_\_\_ Less than half \_\_\_\_\_ About half \_\_\_\_\_ More than half

7. Please identify the description below which most accurately describes how your enterprise derives most of its revenue (check only one below on A-D).

- A. Manufacturing products (e.g. durable consumer products or manufacturing of components into finished products) \_\_\_\_\_
- B. Services (doing things for customers rather than manufacturing things – e.g. airlines, financial services, retail stores, food preparation) \_\_\_\_\_
- C. Government \_\_\_\_\_
- D. Other (please identify) \_\_\_\_\_

8. Please place a check beside one of the following three descriptions (A,B,C) which most accurately reflects how many products your enterprise has?

Your enterprise obtains nearly all (e.g. 70% or more) of its revenue from:

A. one product \_\_\_\_\_

Your enterprise obtains less than 70% of its revenue from one product and the rest from:

B. related products \_\_\_\_\_

or C. unrelated products \_\_\_\_\_

D. don't know \_\_\_\_\_

9. How accurately do each of the following describes the business environment that your enterprise face?

	Very False			Very True		
1. Marketplace competition has increased dramatically	1	2	3	4	5	
2. Conditions in our business environment are rapidly changing	1	2	3	4	5	
3. Government regulations are rapidly changing	1	2	3	4	5	
4. The technology in our product/services is complex	1	2	3	4	5	
5. Abundant supply of skilled people in the labor market	1	2	3	4	5	

2) About yourself

1. Age \_\_\_\_\_ Less than 30 \_\_\_\_\_ 49 – 49 \_\_\_\_\_ 60 or older  
           \_\_\_\_\_ 30 – 39 \_\_\_\_\_ 50 – 59

2. Gender \_\_\_\_\_ Male \_\_\_\_\_ Female

3. Please indicate the highest grade in school you have completed

_____ High School Degree or Less	_____ Some Graduate Education
_____ Some College Education	_____ Graduate Degree
_____ Bachelor's Degree	_____ Other

4. What is your ethnicity? \_\_\_\_\_

5. What is your job title? \_\_\_\_\_

6. How long have you been in your current job? \_\_\_\_\_ years
7. How long have you been with your current enterprise? \_\_\_\_\_
8. What is your current monthly salary (including all take-home pay)?
- |                          |                  |                    |
|--------------------------|------------------|--------------------|
| Less than 400 yuan _____ | 601 to 700 _____ | 901 to 1,000 _____ |
| 400 to 500 _____         | 701 to 800 _____ | Above 1,000 _____  |
| 501 to 600 _____         | 801 to 900 _____ |                    |

## YOUR ENTERPRISE'S PERSONNEL/HUMAN RESOURCE DEPARTMENT

1. Does your enterprise have a separate Personnel Department (or Labor Department or both) that has control of employee personnel records, training programs, salary, and performance appraisal guidelines, and so on, for the rest of the enterprise?

\_\_\_\_\_ Yes      \_\_\_\_\_ No

If "Yes", what is the name of that department in your company?

Name of Department \_\_\_\_\_

2. Think of your enterprise's Personnel Department or Labor Department or both Departments. How accurately do the following statements describe that Department, overall?

Please use the following scale for the questions below:

	1	2	3	4	5	6
	Very False				Very True	Don't know
(1) It is viewed as an important Department in the enterprise.	1	2	3	4	5	6
(2) It tends to <u>imitate</u> the human Resource practices (e.g. in hiring, pay, etc) used by other firms in our industry.	1	2	3	4	5	6
(3) It works closely with the senior management group on the key strategic issues facing the enterprise.	1	2	3	4	5	6
(4) It is viewed as an effective department.	1	2	3	4	5	6

3. This Department carries out the following activities at present. Please tick those that apply in the left column:

What kind of activities that you think should be involved by the HR Department? Please tick those that apply in the right column.

	Current Activities	Should be Involved
HR planning for the company's business strategy	_____	_____
Being responsible for HR policies	_____	_____
Recruitment and selection	_____	_____
Job analysis and evaluation	_____	_____
Performance appraisal	_____	_____
Wage administration	_____	_____
Training and career development	_____	_____
Record keeping	_____	_____
Health and safety	_____	_____
Employees' welfare, recreation and sports	_____	_____
Organise political studies	_____	_____
Contact local Labor Bureau for potential labor supply	_____	_____
Other. Please specify	_____	_____

4. To be a human resource manager, the person needs to meet the following requirements (tick those that apply):

Having formal qualifications in the area of

management \_\_\_\_\_ or \_\_\_\_\_ (please specify);

At the level of

University \_\_\_\_\_ college \_\_\_\_\_ above year 12 \_\_\_\_\_

Having work experience \_\_\_\_\_

Politically reliable (e.g. must be a Party member) \_\_\_\_\_

Other. Please specify \_\_\_\_\_

**HUMAN RESOURCE (HR) PLANNING**

1. Has formal (written) HR forecasting and planning:  
Yes \_\_\_\_\_ No \_\_\_\_\_

If "Yes", it is short term (1-2 years) \_\_\_\_\_  
and/or long term (2-5 years) \_\_\_\_\_

2. In your enterprise, who is involved in HR planning?

General Manager \_\_\_\_\_ Department managers \_\_\_\_\_

Line managers \_\_\_\_\_ Human resource manager \_\_\_\_\_  
Other. Please specify \_\_\_\_\_

3. What are the main reasons for HR planning?

Part of the whole enterprise's business strategy \_\_\_\_\_  
Required by the enterprise's own staffing needs \_\_\_\_\_  
Required by the local government (e.g. Labor Bureau) \_\_\_\_\_  
Other. Please specify \_\_\_\_\_

4. How significant is HR planning?

1	2	3	4	5
Not important at all	Unimportant	Neutral	Important	Very important

## JOB ANALYSIS

1. Does your enterprise conduct written job analysis?

Yes \_\_\_\_\_ No \_\_\_\_\_

If "Yes", who conduct job analysis?

HR manager \_\_\_\_\_  
Line manager \_\_\_\_\_  
Other. Please specify \_\_\_\_\_

2. The job analysis process focuses on the following factors (tick those that apply):

Person - requirements of the people involved in the job, e.g.

Education \_\_\_\_\_  
Skills \_\_\_\_\_  
Physical \_\_\_\_\_  
Other. Please specify \_\_\_\_\_

Task - Brief description of the work to be done \_\_\_\_\_  
Brief description of the tools or machines to be used \_\_\_\_\_  
Production standard \_\_\_\_\_  
Production quota (e.g. number of products to be produced per hour/shift) \_\_\_\_\_  
Other. Please specify \_\_\_\_\_

3. What are the uses of Job Analysis in the enterprise?

Classify job responsibility and authority \_\_\_\_\_  
Basis for HR planning \_\_\_\_\_  
Basis for recruitment and selection \_\_\_\_\_

Basis for performance standards	_____
Basis for job evaluation	_____
Basis for determining post salary	_____
Other. Please specify	_____

## HIRING PRACTICES

1. External employee sources are from:

Local labor market offices	_____
Job applicants through advertising	_____
Government employee allocation	_____
Other. Please specify	_____

2. Internal employee sources are from:

The enterprise's HR data bank	_____
Internal transfer or promotion	_____
Own employees' children or relatives ( <i>dingti</i> )	_____
Other. Please specify	_____

3. How accurately do the following statements describe your enterprise's hiring practices?  
For each statement provide two responses.

First, use the left column to indicate to what extent the statements below describe the way Hiring Practices currently are conducted (IS NOW).

Second, use the right column to indicate to what extent the statements below describe the way Hiring Practices ought to be conducted to promote organisational effectiveness (SHOULD BE).

Please use the following scale for the questions below:

1	2	3	4	5
Not at all		To a Moderate Extent		To a Very Great
Extent				

Hiring decisions here are influenced by:

	<u>IS NOW</u>					<u>SHOULD BE</u>				
	1	2	3	4	5	1	2	3	4	5
1. A person's ability to perform the technical requirements of the job.	1	2	3	4	5	1	2	3	4	5
2. A personal interview.	1	2	3	4	5	1	2	3	4	5
3. A person's ability to get along well with others already working here.	1	2	3	4	5	1	2	3	4	5

	<u>IS NOW</u>					<u>SHOULD BE</u>				
	1	2	3	4	5	1	2	3	4	5
4. Having the right connections (e.g. school, family, friends, region, government, etc).	1	2	3	4	5	1	2	3	4	5
5. The company's belief that the person will stay with the company (e.g. 5 years or longer)	1	2	3	4	5	1	2	3	4	5
6. An employment test in which the person needs to demonstrate their skills.	1	2	3	4	5	1	2	3	4	5
7. Proven work experience in a similar job.	1	2	3	4	5	1	2	3	4	5
8. A person's potential to do a good job, even if the person is not that good when they first start.	1	2	3	4	5	1	2	3	4	5
9. How well the person will fit the enterprise's values and ways of doing things.	1	2	3	4	5	1	2	3	4	5
10. Future co-workers' opinions about whether the person should be hired.	1	2	3	4	5	1	2	3	4	5
11. Personal qualifications.	1	2	3	4	5	1	2	3	4	5
12. Political background.	1	2	3	4	5	1	2	3	4	5
13. Personal file records.	1	2	3	4	5	1	2	3	4	5

Please use the same scale to indicate to what extent your enterprise's hiring practices are effective.

- The hiring practices help our enterprise to have high-performing employees. 1 2 3 4 5
- The hiring practices help our enterprise to have employees who are satisfied with their job. 1 2 3 4 5
- The hiring practices make a positive contribution to the overall effectiveness of the organisation. 1 2 3 4 5

## PERFORMANCE APPRAISAL PRACTICES

- Does your enterprise have standardised criteria and methods of the appraisal?

Yes \_\_\_\_\_ No \_\_\_\_\_

If “Yes”, what is the frequency of appraisal?

Once a year \_\_\_\_\_ Twice a year \_\_\_\_\_ Monthly \_\_\_\_\_

2. Who conducts the appraisal?

Department managers \_\_\_\_\_  
 Line managers \_\_\_\_\_  
 Peel group \_\_\_\_\_  
 Individuals to be evaluated \_\_\_\_\_  
 Other. Please specify \_\_\_\_\_

3. Method of appraisal:

Self evaluation by using a standardised form \_\_\_\_\_  
 Discussion within the work group \_\_\_\_\_  
 Supervisor’s comments \_\_\_\_\_  
 Other. Please specify \_\_\_\_\_

4. The purpose of performance appraisal practices

How accurately do the following statements describe the purposes of your company’s performance appraisal practices? For each statement provide two responses.

First, use the left column to indicate the extent to which the statements below describe the way Performance Appraisal Practices currently are conducted (IS NOW).

Second, use the right column to indicate to what extent the statements below describe the way Performance Appraisal Practices ought to be conducted to promote organisational effectiveness (SHOULD BE).

Please use the following scale for the questions below:

1	2	3	4	5
Not at all		To a Moderate Extent		To a Very Great
Extent				

Possible purposes of Performance Appraisal:

What purposes do you think should be for Performance Appraisal (tick those that apply in the right column):

	<u>IS NOW</u>					<u>SHOULD BE</u>				
	1	2	3	4	5	1	2	3	4	5
1. Determine appropriate pay.	1	2	3	4	5	1	2	3	4	5
2. Document subordinate’s performance.	1	2	3	4	5	1	2	3	4	5
3. Plan development activities for subordinate (e.g. training, new duties).	1	2	3	4	5	1	2	3	4	5



	<u>IS NOW</u>					<u>SHOULD BE</u>				
	1	2	3	4	5	1	2	3	4	5
4. For salary administration.	1	2	3	4	5	1	2	3	4	5
5. Recognise subordinate for things done well.	1	2	3	4	5	1	2	3	4	5
6. Lay out specific ways in which subordinate can improve performance.	1	2	3	4	5	1	2	3	4	5
7. Discuss subordinate's views.	1	2	3	4	5	1	2	3	4	5
8. Evaluate subordinate's goal achievement.	1	2	3	4	5	1	2	3	4	5
9. Identify subordinate's strengths and weaknesses.	1	2	3	4	5	1	2	3	4	5
10. Allow subordinate to express feelings.	1	2	3	4	5	1	2	3	4	5
11. Determine subordinate's promotability.	1	2	3	4	5	1	2	3	4	5
12. Basis for bonus distribution.	1	2	3	4	5	1	2	3	4	5
5. Please indicate to what extent your enterprise's performance appraisal practices are effective.										
(1) The performance appraisal help our enterprise have high-performing employees.					1	2	3	4	5	
(2) The appraisal practices help our enterprise to Have employees who are satisfied with their jobs.					1	2	3	4	5	
(3) The appraisal practices make a positive contribution to the overall effectiveness of the organisation.					1	2	3	4	5	

## EMPLOYEE COMPENSATION PRACTICES

1. Does your enterprise have a pension plan?

Yes \_\_\_\_\_ No \_\_\_\_\_

If "Yes", the plan is decided by the enterprise \_\_\_\_\_  
or according to the government's regulations \_\_\_\_\_

2. What is the percentage of pension in the average monthly wage?

Less than 5%	_____	10 to 15	_____
5 to 10	_____	More than 15%	_____

3. Does your enterprise have a medical plan?

Yes \_\_\_\_\_ No \_\_\_\_\_

If "Yes", the plan is decided by the enterprise \_\_\_\_\_  
or according to the government's regulations \_\_\_\_\_

4. What is the percentage of medical fee in the average monthly?

Less than 5%	_____	10 to 15	_____
5 to 10	_____	More than 15%	_____

5. The components of wage and their percentage in the wage:

Base pay	_____	Percentage	_____
Floating wage	_____	Percentage	_____
Positional allowances	_____	Percentage	_____
Other. Please specify	_____	Percentage	_____

6. Bonus is distributed on the basis of:

Individual performance	_____
Group performance	_____
Attendance	_____
Profitability	_____
Consumer Price Index (CPI)	_____
Other. Please specify	_____

7. The items of subsidies and their percentage in the monthly take-home pay:

Non-staple food	_____	Percentage	_____
Housing fund	_____	Percentage	_____
Personal hygiene allowance	_____	Percentage	_____
Books and newspaper	_____	Percentage	_____
Other. Please specify	_____	Percentage	_____

8. Is there a profit-sharing plan in your enterprise?

Yes \_\_\_\_\_ No \_\_\_\_\_

If "Yes," what is the percentage of profit-sharing in 1993?

9. How accurately do the following statements describe your enterprises pay practices? For each statement provide two responses.



10. Please indicate to what extent your enterprise's pay practices are effective.

- |     |  |   |   |   |   |   |
|-----|--|---|---|---|---|---|
| (1) | The pay practices help our enterprise have high-performing employees.                            | 1 | 2 | 3 | 4 | 5 |
| (2) | The pay practices help our enterprise to have employees who are satisfied with their jobs.       | 1 | 2 | 3 | 4 | 5 |
| (3) | The pay practices make a positive contribution to the overall effectiveness of the organisation. | 1 | 2 | 3 | 4 | 5 |

### TRAINING AND DEVELOPMENT PRACTICES

1. Does your enterprise have on-the-job training?

Yes \_\_\_\_\_ No \_\_\_\_\_

2. Does your enterprise have off-the-job training?

Yes \_\_\_\_\_ No \_\_\_\_\_

3. Types of Training Programs include:

Induction and orientation	_____
Occupational skills	_____
Technical/professional	_____
Management development for administrative staff	_____

4. Who is responsible for Training?

In-house training staff \_\_\_\_\_  
Outside training agencies \_\_\_\_\_

5. How accurately do the following statements describe the purposes of your enterprise's Training and Development practices? For each statement provide two responses.

First, use the left column to indicate the extent to which the statements below describe the way Training and Development practices currently

Second, use the right column to indicate to what extent the statements below describe the way Training and Development practices ought to be conducted to promote organisational effectiveness (SHOULD BE).

Please use the following scale for the questions below:

1	2	3	4	5
Not at all		To a Moderate Extent		To a Very Great
Extent				

Possible purposes of Training Practices:

	<u>IS NOW</u>					<u>SHOULD BE</u>				
	1	2	3	4	5	1	2	3	4	5
1. Provide a reward to employees	1	2	3	4	5	1	2	3	4	5
2. Improve their technical job abilities.	1	2	3	4	5	1	2	3	4	5
3. Improve employees interpersonal abilities, i.e. how well they relate to others.	1	2	3	4	5	1	2	3	4	5
4. Remedy employees past poor performance.	1	2	3	4	5	1	2	3	4	5
5. Prepare employees for future job assignments.	1	2	3	4	5	1	2	3	4	5
6. Build teamwork within the enterprise.	1	2	3	4	5	1	2	3	4	5
7. Provide substantial training when employees first start working in the enterprise.	1	2	3	4	5	1	2	3	4	5
8. Help employees understand the business, e.g. knowledge of competitors, new technologies, etc.	1	2	3	4	5	1	2	3	4	5
9. Provide employees with the skills needed to do a number of different jobs, not just one particular job.	1	2	3	4	5	1	2	3	4	5
10. Teach employees about the enterprise's values and ways of doing things.	1	2	3	4	5	1	2	3	4	5

6. Please use the same scale to indicate to what extent your enterprise's training and development practices are effective.

(1) The training practices help our enterprise have high-performing employees.	1	2	3	4	5
(2) The training practices help our enterprise to have employees who are satisfied with their jobs.	1	2	3	4	5

- 1      2      3      4      5

1. Employees are encouraged to participate in the management process by:

- Using a suggestion box \_\_\_\_\_
- Encouraging suggestions \_\_\_\_\_
- Accepting suggestions and offering rewards \_\_\_\_\_
- Employees participating in management decisions \_\_\_\_\_
- Other. Please specify \_\_\_\_\_

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### APPENDIX III: PUBLISHED WORK RELEVANT FOR THE THESIS

Zhu, C. J. 1997. Human resource development in China during the transition to a new economic system. *Asia Pacific Journal of Human Resources*, 35 (3): 19-44.

Zhu, C. J., De Cieri, H. & Dowling, P. J. 1998. The reform of employee compensation in China's industrial enterprises. *Management International Review*, Special Issue 1998/2: 65-87.

These two articles are placed in a pocket attached to the inside back cover. This has been done in accordance with the University of Tasmania Research Higher Degrees Handbook (2000).

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removed for copyright or  
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